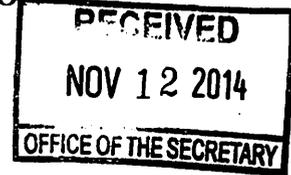


UNITED STATES OF AMERICA
Before the
SECURITIES AND EXCHANGE COMMISSION

HARD COPY

ADMINISTRATIVE PROCEEDING
File No. 3-15965



In the Matter of

**CHILD, VAN WAGONER &
BRADSHAW, PLLC, RUSSELL
E. ANDERSON, CPA, and
MARTY VAN WAGONER, CPA**

Respondents.

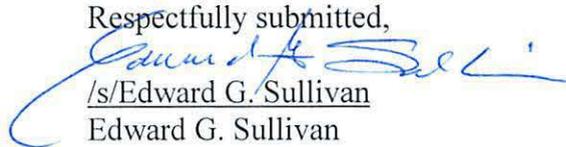
**DIVISION OF ENFORCEMENT'S WITNESS
LIST FOR HEARING TO COMMENCE ON
DECEMBER 8, 2014**

The Division of Enforcement ("Division"), pursuant to the ALJ's Order at the Prehearing Conference and Order Setting Prehearing Schedule both dated August 11, 2014 and Rule 221(c)(2) of the Commission's Rules of Practice, herewith submits its witness list of those who may be called to testify at the hearing in this matter which is scheduled to commence on December 8, 2014.

- 1) Sean Jay Bryant, Layton, UT;
(expected to testify as to background, positions, responsibilities, duties, obligations and actions at Child, Van Wagoner & Bradshaw, PLLC during the relevant period of time, among other areas of testimony);
- 2) Russell E. Anderson, West Valley City, UT;
(expected to testify as to background, professional qualifications, prior relations with various persons, duties, obligations and actions at Child, Van Wagoner & Bradshaw, PLLC during the relevant period of time, among other areas of testimony);
- 3) Marty Del Van Wagoner, Eagle Mountain, UT;
(expected to testify as to background, professional qualifications, prior relations with various persons, duties, obligations and actions at Child, Van Wagoner & Bradshaw, PLLC during the relevant period of time, among other areas of testimony);

- 4) Sandra C. Chen, West Jordan, UT, 84084;
(expected to testify as to background, professional qualifications, prior relations with various persons, duties, obligations and actions at Child, Van Wagoner & Bradshaw, PLLC during the relevant period of time, among other areas of testimony);
- 5) R. Larry Johnson, CPA Reston, VA;
(expected to testify as an expert witness on the issues of PCAOB auditing standards, Generally Accepted Auditing Standards, and other issues relating to the 2009 and 2010 audits of Yuhe International, Inc. by Child, Van Wagoner & Bradshaw, PLLC, Russell Anderson and Marty Van Wagoner, among other areas of testimony as set forth more fully in his expert report in DOE #86); and
- 6) Any other witness identified on Respondent's Witness List.

Respectfully submitted,



/s/Edward G. Sullivan

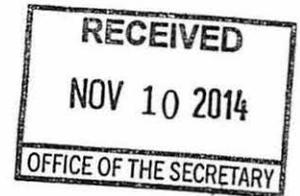
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Expert Report of R. Larry Johnson

Securities and Exchange Commission
Administrative Proceeding, File No. 3-15965

In the matter of
Child, Van Wagoner & Bradshaw, PLLC
Russell E. Anderson, CPA, and
Marty Van Wagoner, CPA

Prepared by:
R. Larry Johnson, CPA

R. Larry Johnson

November 10, 2014

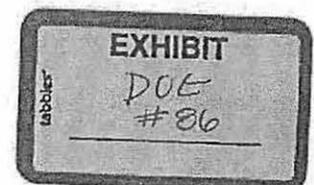


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INTRODUCTION

Retention

I have been engaged by the U.S. Securities and Exchange Commission (the "SEC" or the "Commission") to evaluate the conduct of Child, Van Wagoner & Bradshaw, PLLC ("CVB"), Russell E. Anderson and Marty Van Wagoner, partners in that firm, with respect to the audits conducted of the financial statements of Yuhe International, Inc. ("Yuhe" or "the Company") as of and for the years ended December 31, 2009 and 2010.

This report sets forth information regarding my qualifications, the subject matter of my expected testimony, and the grounds for and substance of my opinions.

Veris is being compensated for my work on this engagement at an hourly rate of \$525 plus expenses. The hourly rates for staff working under my direction range from \$200 - \$475, plus expenses.

In conducting my evaluation, I have considered the documents identified in Exhibit A. I have been assisted by members of the staff of Veris Consulting, Inc. ("Veris"), who worked under my direction and supervision; the opinions expressed in this report are mine.

My analysis is continuing. To the extent additional documents are produced in this matter, or I become aware of additional facts or issues, I reserve the right to amend or modify my conclusions.

Qualifications

I am a Certified Public Accountant and serve as the Chairman & CEO of Veris, a consulting practice formed in 2000 as part of a reorganization of Johnson Lambert & Co. ("JLC"), a firm of certified public accountants, which I co-founded in 1986.

I have been a Certified Public Accountant since 1969 and have substantial experience providing a wide range of auditing and consulting services. My experience includes

-serving as an expert witness in state and federal courts, as well as in arbitration proceedings. The issues on which I have testified include accounting, auditing, economic damage assessments, and financial statement disclosures.

I began my career with Ernst & Ernst (subsequently Ernst & Whinney and now Ernst & Young-LLP) in 1968. In 1978, I became a partner in that firm and served as partner in charge of the firm's accounting and auditing practice for the metropolitan Washington, DC area from 1980 to 1986. As a partner of Ernst & Whinney, I signed hundreds of audit opinions resulting from audits conducted in accordance with generally accepted auditing standards. I was involved in many peer reviews, and was a quality control reviewer for various Ernst & Whinney clients.

In 1986, I left Ernst & Whinney to form JLC. Since forming JLC and Veris, I have been involved in several hundred accounting, auditing, or consulting engagements involving various industries - including a variety of engagements to evaluate compliance with generally accepted accounting principles ("US GAAP") and generally accepted auditing standards.

My engagements have included professional services to federal and state government agencies, including work on behalf of the SEC. In addition, I have been retained on behalf of the U.S. Department of Justice involving matters in which damages have been asserted against the U.S. government and have conducted a variety of analyses in connection with the evaluation of those damage assertions.

I have served in several standard setting capacities of the American Institute of Certified Public Accountants ("AICPA"). I was asked to and served as one of 15 members of the AICPA's Accounting Standards Executive Committee, which at the time was a primary standard setting body in the development of US GAAP in the U.S, as well as various other accounting standards task forces of the AICPA, and I have also served as a member

of the AICPA's Committee on Relations with Actuaries and its Financial Services Expert Panel.

My undergraduate degree is from the University of Maryland (magna cum laude) and I completed MBA course work at George Washington University.

A copy of my Curriculum Vitae is included as Exhibit B.

BACKGROUND

Yuhe International, Inc.

During 2009 and 2010, Yuhe, formerly known as First Growth Investors, Inc. (“First Growth”), was a supplier of chickens raised for meat production, also known as “broilers,” through its operating subsidiaries Weifang Yuhe Poultry Co., Ltd. (“Yuhe Poultry”) and Weifang Taihong Feed Co., Ltd (“Yuhe Feed”), in the People’s Republic of China. Yuhe sold broilers primarily to broiler farms and integrated chicken companies one day after hatching from eggs laid by Company-owned parent breeding stock, which the Company would purchase from breeder farms.¹ Yuhe Poultry conducted the Company’s breeding, hatching and chicken selling operations, and generated over 99% of Yuhe’s revenue. Yuhe Feed produced chicken feed and feed additives, sold almost exclusively to Yuhe Poultry.²

A brief timeline of the history of Yuhe, prior to the reverse merger described below, follows:

- Yuhe Poultry was founded in March 1996 in China by Gao Zhentao and Sun Haoguo.
- Yuhe Feed was founded in May 2003 by Shandong Yuhe Food Group Co., Ltd. (“Shandong Group”) and Gao Zhenbo (brother of Gao Zhentao).
- Bright Stand International Co., Ltd. (“Bright Stand”) was incorporated August 3, 2007, with Kunio Yamamoto, a Japanese citizen, as the sole shareholder. (Bright Stand had no operating activities until 2008.)
- Yuhe Poultry acquired 56.25% interest in Yuhe Feed from the Shandong Group in a reorganization of equity interest under common control, effective September 14, 2007.

¹ Yuhe International, Inc., Form 10-K for the year ended December 31, 2009, p. 2.

² Yuhe International, Inc., Form 10-K for the year ended December 31, 2009, pp. 3-4 and 12; Yuhe International, Inc., Form 10-K for the year ended December 31, 2010, p. 9.

- Bright Stand acquired 100% ownership share of Yuhe Poultry and the remaining 43.75% ownership share of Yuhe Feed not previously acquired by Yuhe Poultry, effective January 31, 2008.³

2008 Reverse Merger Transaction

First Growth was incorporated on September 9, 1997 in Nevada for the initial purpose of buying and selling vintage wines. An initial public offering of its shares was held on October 15, 1997. The company operated until December 31, 2003 when it liquidated its inventory at a loss and discontinued further operations. First Growth existed as only a shell company until 2008, but maintained its registration with the SEC. On November 16, 2007, Halter Financial Investment Group, LLC obtained an 87.5% ownership share of First Growth through a stock purchase agreement.⁴

On March 12, 2008, First Growth closed an Equity Transfer Agreement with Bright Stand and Mr. Yamamoto, by which Mr. Yamamoto obtained 126,857,134 shares of First Growth, 88% of First Growth's then outstanding common stock. As a result of the agreement, Bright Stand and its wholly owned subsidiaries Yuhe Poultry and Yuhe Feed became wholly owned subsidiaries of First Growth. Immediately thereafter, a private placement of 85,714,282 shares of First Growth common stock was sold to 25 investors for an aggregate \$18 million, and Mr. Yamamoto sold 14,285,710 of his First Growth shares to those same investors.⁵

On April 4, 2008, First Growth changed its name to Yuhe International, Inc., and effected a 1-for-14.70596492 reverse stock split of its common stock.⁶ The corporate structure of Yuhe, effective as of the end of 2009 and 2010, is shown below.⁷

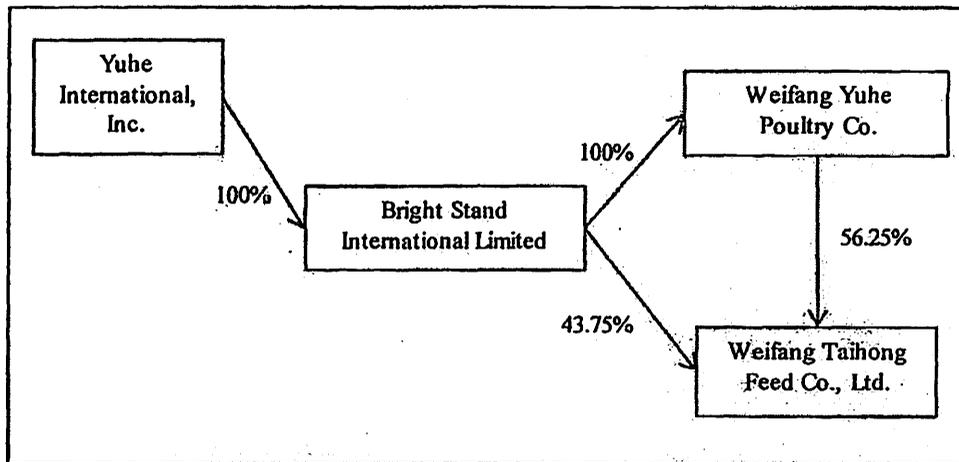
³ Yuhe International, Inc., Form 10-K for the year ended December 31, 2009, pp. 3-4.

⁴ First Growth Investors, Inc., Form 10-KSB for the year ended December 31, 2007, pp 3-4. (14,000,000 shares/(14,000,000 + 2,000,000 shares previously issued and outstanding) = 87.5%)

⁵ Yuhe International, Inc., Form 8-K, filed March 17, 2008, pp. 19-22.

⁶ Yuhe International, Inc., Form 8-K, filed April 10, 2008, p.3.

⁷ Yuhe International, Inc., Form 10-K for the year ended December 31, 2009, p.9.



2009 Breeder Farm Acquisition

In its 2009 Form 10-K, Yuhe reported that it had entered into an agreement on December 24, 2009 to acquire thirteen breeder farms from Waifang Dajiang Corporation for approximately \$16 million (the “Dajiang Acquisition”). Pursuant to the agreement, Yuhe would acquire the breeder farm buildings and the land use rights for 36 years. Yuhe reported that it had paid 80% of the purchase price on or before December 31, 2009 and would pay the remaining balance within 2 months after formal delivery of these farms, which was expected to take place in October 2010. Yuhe recorded the purchase as “deposits paid for acquisition of long-lived assets”⁸ on the basis that control of the farms had not been transferred. The previous owner was understood to still have current breeder stock on the farms, and that control would not be passed until the end of the breeding cycles after which all of the prior owner’s inventory would have been removed.⁹

Despite the previously disclosed expectation that the balance of the purchase price was expected to be paid in March 2010, in its Form 10-K as of December 31, 2010, Yuhe reported that no additional amounts had been paid on the purchase of the 13 breeder farms during 2010, and that it expected the balance to be paid by the end of 2011. As of December 31, 2010, Yuhe had recorded the purchase of 7 of 13 farms as property and

⁸ Yuhe International, Inc., Form 10-K for the year ended December 31, 2009, pp. 20-21.

⁹ CVB051204.

equipment, on the basis that control of the seven farms had been transferred.¹⁰ The remainder of the acquisition continued to be reported as a deposit. Yuhe also reported that it expected to spend approximately \$2.49 million to renovate the purchased facilities.¹¹

On June 23, 2011, Yuhe filed an 8-K that included a transcript of a conference call held with analysts on June 17, 2011. On the conference call, Yuhe disclosed that the 2009 acquisition of the 13 breeder farms had never been completed. Mr. Vincent Hu, CFO of Yuhe stated that

*...certain disputes exist between the two parties after the purchase agreement was signed, and the transaction was not completed. After this incident happened, the CEO had not informed the board of directors and CFO that the transaction has not been completed. Instead, the CEO decided to purchase another 13 breeder farms. From March 2010 to the present, the Company had completed the acquisition of 11 breeder farms with the cash refunds from Weifang Dajiang Corporation and the Company is in negotiation to purchase another 2 breeder farms. This matter has been brought to the attention of our Board for further actions.*¹²

Child, Van Wagoner & Bradshaw, PLLC

CVB was a public accounting firm headquartered in Utah from 2006 to 2012 that claimed it employed up to 50 people and “maintained another team of professionals in Hong Kong”¹³ The team of professionals in Hong Kong was actually a separate Hong Kong accounting firm known as Tom Cheng and Company (“Tom Cheng”), which participated with CVB on the audits of several Chinese companies.¹⁴ As of June 2009, CVB had five

¹⁰ CVB052832.

¹¹ Yuhe International, Inc., Form 10-K for the year ended December 31, 2010, p.25.

¹² Yuhe International, Inc., Form 8-K, filed June 23, 2011, p.2.

¹³ Child, Van Wagoner and Associates website. <http://cpaelite.net/about-us>.

¹⁴ Sworn investigative testimony of Russell Anderson, taken June 26, 2013, pp. 46-48.

partners, including Russell Anderson and Marty Van Wagoner, and 20 professional staff.¹⁵

In its *Activity Summary and Audit Implications for Reverse Mergers Involving Companies from the China Region: January 1, 2007 through March 31, 2010*, the Public Company Accounting Oversight Board (the "PCAOB") identified CVB as one of 24 accounting firms that had conducted audits of firms that had entered into transactions identified as "Chinese Reverse Mergers."¹⁶

CVB performed audits of Yuhe's financial statements for the years ended December 31, 2010, 2009, 2008 and 2007.¹⁷ CVB also audited Yuhe Poultry for the years ended December 31, 2007 and 2006, and these financial statements were included in Yuhe's Form S-1 filed in May 2008.¹⁸

Audit of Yuhe's 2007 & 2008 Financial Statements

In 2007, Mr. Van Wagoner and Mr. Anderson met with Henry "Hank" Deng, then a partner with a Baker Tilly affiliated firm in Shanghai, China ("BT - Shanghai"),¹⁹ regarding a potential arrangement between his firm and CVB.²⁰ Mr. Deng proposed that the two firms work together to perform the audit of Yuhe and its subsidiaries. Yuhe's Form 10-K for the year ended December 31, 2008, stated,

...the Company's board of directors elected to continue the existing relationship of the Company's new subsidiary Weifang Yuhe Poultry Co., Ltd. with Child, Van Wagoner & Bradshaw, PLLC and appointed Child,

¹⁵ PCAOB Release No. 104-2010-089A.

¹⁶ PCAOB Research Note # 2011-P1, *Activity Summary and Audit Implications for Reverse Mergers Involving Companies from the China Region: January 1, 2007 through March 31, 2010*, dated March 14, 2011.

¹⁷ Yuhe International, Inc., Form 10-K for the year ended December 31, 2008, p.F-2; Yuhe International, Inc., Form 10-K for the year ended December 31, 2010, p.F-2.

¹⁸ Yuhe International, Inc., Form S-1 for the period ended May 12, 2008, pp.F-2, F-26.

¹⁹ The Baker Tilly affiliate in Shanghai is also referred to as "Tin Hua Shanghai." See Sworn investigative testimony of Russell Anderson, taken June 26, 2013, pp. 129-130.

²⁰ Sworn investigative testimony of Russell Anderson, taken June 26, 2013, pp. 35-36.

*Van Wagoner & Bradshaw, PLLC as the Company's independent auditor.*²¹

The CVB audit team for the audits of 2007 and 2008 included Mr. Anderson as lead partner on the engagement, Mr. Van Wagoner as concurring partner, Sean Bryant, who was not a CPA, as Manager (although his position at CVB was that of Senior Associate), and Sandra Chen, who served as CVB's Director of Asian Practice. Mr. Deng's BT-Shanghai firm provided staff that performed the fieldwork in China.²² As Yuhe's operations were entirely in China,²³ it is my understanding that BT-Shanghai's work constituted virtually all of the audit fieldwork for the 2007 and 2008 audits.

On March 27, 2009, CVB issued an unqualified audit opinion on Yuhe's financial statements for the year ended December 31, 2008 and 2007.²⁴

Audit of Yuhe's 2009 Financial Statements (the "2009 Yuhe Audit")

After the audit of Yuhe's 2007 and 2008 financial statements, CVB and BT-Shanghai performed the required quarterly reviews for the three interim quarters of 2009.

Prior to the commencement of the 2009 Yuhe Audit, BT-Shanghai merged with Grant Thornton, the China member firm of Grant Thornton International ("Grant Thornton"), Mr. Deng became a partner of Grant Thornton and the staff of BT-Shanghai became the employees of Grant Thornton.²⁵ Then on December 7, 2009, Yuhe filed a Form 8-K with the SEC stating the following,

"...the [Audit] Committee selected Grant Thornton, the China member firm of Grant Thornton International...as its Independent Registered Public Accounting Firm for the fiscal year ending December 31, 2009. ...The Committee's selection of Grant Thornton to serve as the Company's Independent Registered Public Accounting Firm for the fiscal year ending

²¹ Yuhe International, Inc., Form 10-K for the year ended December 31, 2008, p.38.

²² Sworn investigative testimony of Sean Bryant, taken June 25, 2013, p.46; Sworn investigative testimony of Russell Anderson, taken June 26, 2013, p.42.

²³ Yuhe International, Inc., Form 10-K for the year ended December 31, 2008, p.6.

²⁴ Yuhe International, Inc., Form 10-K for the year ended December 31, 2008, p.F-2.

²⁵ Sworn investigative testimony of Russell Anderson, taken June 26, 2013, p.93; Wells Submission of Child, Van Wagoner & Bradshaw, Russell Anderson, and Marty Van Wagoner, October 25, 2013, p.4.

*December 31, 2009 has resulted in the dismissal of Child, Van Wagoner & Bradshaw, PLLC.*²⁶

After the announcement of Yuhe's selection of Grant Thornton as its auditor, the personnel of BT-Shanghai continued working, as employees of Grant Thornton, on the audit of the 2009 financial statements of Yuhe.²⁷

On March 11, 2010, Yuhe filed a Form 8-K with the SEC stating the following,

On March 5, 2010, Yuhe International, Inc. (the "Company") was notified by Grant Thornton, the China member firm of Grant Thornton International ("Grant Thornton"), its independent registered public accounting firm, that Grant Thornton is resigning as the Company's independent registered public accounting firm effective immediately. The resignation of Grant Thornton was approved by the Company's Audit Committee and Board of Directors...

Grant Thornton noted during its audit procedures that the Company has been unable to eliminate the occurrence of related party loans between the Company and Yuhe Food, and the Company concluded that a material weakness continues to exist with respect to the Company's compliance with Section 402 of the Sarbanes-Oxley Act of 2002. The Company's remedial efforts as previously reported on Form 10-K/A have not successfully remediated the material weakness. Grant Thornton also has communicated to the Company certain audit adjustments related to the Company's financial statements for the year ended December 31, 2009, which indicated a material weakness of the Company's internal control over financial reporting. The Company agrees with such assessment. These notifications by Grant Thornton constitute "reportable events" as described in Item 304(a)(1)(v) of Regulation S-K....

The Audit Committee of the Board of Directors of the Company has appointed Child, Van Wagoner & Bradshaw, PLLC ("CVB"), and CVB has accepted the appointment, as the Company's independent registered public accounting firm to replace Grant Thornton effective March 9, 2010.²⁸ [Emphasis added.]

²⁶ Yuhe International, Inc., Form 8-K, filed December 9, 2009, p.3.

²⁷ Wells Submission of Child, Van Wagoner & Bradshaw, Russell Anderson, and Marty Van Wagoner, October 25, 2013, p.4.

²⁸ Yuhe International, Inc., Form 8-K, filed March 11, 2010, pp.3-4.

According to the Wells Submission of CVB, Mr. Anderson and Mr. Van Wagoner submitted to the SEC in a letter dated October 25, 2013 (“Wells Submission”), CVB made the decision to accept the re-engagement and issue an audit opinion, based on the field work that had already been performed by the personnel of BT-Shanghai while under the supervision of Grant Thornton and while employees of that firm. For the sake of clarity, that group is referred to as BT-Shanghai throughout this report to distinguish it from the international Grant Thornton entity.

The record shows that BT-Shanghai continued to be in communication with CVB after Grant Thornton’s resignation. On March 17, 2010, BT-Shanghai began providing workpapers via email to CVB representing the work they had performed.²⁹ Based on sworn testimony by Mr. Bryant, BT-Shanghai had performed all of the audit fieldwork for the 2009 Yuhe Audit:

Q But in terms of performing the work, that would have been –

A Yeah, we would have been -- performing the worked [sic] was done all by the Grant Thornton people

Q Were there any sections on the balance sheet that you did audit in the U.S.?

A Well, just the parent company, a small shell company, that was the holding company or whatever it was. Yeah, we would have done all that work in the U.S.³⁰

The record shows that CVB incorporated the workpapers of BT-Shanghai into its own workpapers, and that, on March 30, 2010, two weeks after receiving the first of BT-Shanghai’s workpapers, CVB issued an unqualified audit opinion on Yuhe’s financial statements for the year ended December 31, 2009.

In the letter to Yuhe’s management that established the terms of its engagement for the 2009 Yuhe Audit, CVB estimated a total cost for the audit of \$140,000 - \$78,000 of

²⁹ CVB031087.

³⁰ Sworn investigative testimony of Sean Bryant, taken June 25, 2013, p.168:9-168:18.

which was to be paid in installments to CVB and \$62,000 was to be paid in installments to “Baker Tilly China Shanghai Office” (although at that time it was a part of Grant Thornton).³¹

Audit of Yuhe’s 2010 Financial Statements (the “2010 Yuhe Audit”)

CVB was engaged to perform the audit of Yuhe’s 2010 financial statements and perform timely quarterly reviews for the first three quarters of 2010. Unlike the 2009 Yuhe Audit, the year-end audit fieldwork in China was performed by another firm, Tom Cheng, rather than BT-Shanghai.³² CVB also utilized the services of Spring Tu, an RSM-affiliated Chinese firm that included a previous partner of Mr. Deng (“RSM-China”).³³ Tom Cheng performed all of the field work, except inventory observations and internal control testing which were performed by RSM-China.³⁴

Pursuant to the engagement letter for the 2010 Yuhe Audit, dated November 15, 2010, Yuhe was to pay the entire audit fee of \$160,000 directly to CVB, over three installments. CVB, in turn, paid Tom Cheng and RSM-China on an hours-worked basis.³⁵

On March 31, 2011, CVB issued an unqualified audit opinion on Yuhe’s financial statements for the year ended December 31, 2010.

As previously noted, Yuhe held a press conference on June 17, 2011 and announced that the Dajiang Acquisition had not been completed as previously reported and that Yuhe’s CEO had not informed the company’s board of directors and CFO, but rather decided to purchase another 13 breeder farms, 11 of which had already been acquired using the cash refunds received by the CEO from the terminated Dajiang Acquisition.

³¹ CVB040199-CVB040202.

³² Sworn investigative testimony of Russell Anderson, taken June 26, 2013, pp. 111-112.; Tom Cheng is also referred to as “Ever Faith.”

³³ Sworn investigative testimony of Russell Anderson, taken June 26, 2013, p.47; RSM is an international network of audit, tax and advisory firms.

³⁴ CVB056826.

³⁵ CVB066163-CVB066166; Sworn investigative testimony of Russell Anderson, taken June 26, 2013, pp.170-171 and 184.

In separate letters to Yuhe's Audit Committee, both dated June 17, 2011 and both included in the 8-K filed by Yuhe on June 23, 2011, CVB resigned as the independent auditor of Yuhe and notified the Audit Committee that,

... [CVB's] auditor's report on the financial statements of the Company for the year ended December 31, 2010 contained in the Form 10-K filed with the SEC on March 31, 2011 should no longer be relied upon and must no longer be associated with the financial statements due to the Company's management's misrepresentation and failure to disclose material facts surrounding certain acquisition transactions and off-balance sheet related party transactions.³⁶

³⁶ Yuhe International, Inc., Form 8-K, filed June 23, 2011, p. 3.

OVERVIEW OF ACCOUNTING AND AUDITING LITERATURE

Overview of US GAAP

Financial statements reflect the representations of management of an enterprise about its financial position and the results of its operations. For public companies registered with the SEC, the framework for that presentation is usually U.S. Generally Accepted Accounting Principles (“US GAAP”), a comprehensive body of principles established through a defined professional standard-setting hierarchy.³⁷ The Financial Accounting Standards Board (“FASB”) is the primary source of US GAAP, and although the SEC has primary responsibility for accounting principles followed by publicly-traded companies, the SEC has delegated that responsibility, in large part, to the FASB. The Commission does, however, issue accounting guidance periodically, and public companies must comply with various SEC regulations and Staff Accounting Bulletins (in addition to US GAAP standards issued by the FASB and its predecessors) in accounting for transactions and preparing their financial statements.³⁸

On December 15, 2009, the FASB issued Financial Accounting Statement No. 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles*. This standard codified the then-current body of US GAAP into a single equally authoritative body of guidance, effective for interim and annual periods ending after September 15, 2009, and established procedures for updating US GAAP through Accounting Standards Updates.

The 2009 and 2010 Yuhe financial statements were purportedly prepared on the basis of US GAAP.³⁹ The Independent Auditor’s Reports signed by CVB for each year’s audit stated that the consolidated financial statements “*present fairly, in all material respects, the [consolidated] financial position...and the results of its operations...in conformity*

³⁷ FASB Accounting Standards Codification Notice to Constituents (v 4.1) About the Codification (Apr. 10, 2010).

³⁸ The AICPA also issues a limited amount of industry-specific accounting guidance, but mostly related to projects started before the decision that the FASB would be responsible for this function.

³⁹ Yuhe International, Inc., Form 10-K for the year ended December 31, 2009, p. F-2; Yuhe International, Inc., Form 10-K for the year ended December 31, 2010, p. F-2.

with accounting principles generally accepted in the United States of America."⁴⁰ CVB, including Mr. Anderson and Mr. Van Wagoner, was required to reach these conclusions based upon audits conducted in accordance with the auditing standards described herein.⁴¹

Overview of Auditing Standards

PCAOB Standards

Since the passage of the Sarbanes-Oxley Act of 2002, the PCAOB has been responsible for establishing auditing and related professional practice standards applicable to the performance of and reporting on audits of financial statements of companies whose stock is publicly traded in the United States.⁴² PCAOB Auditing Standards Nos. 1 through 6, as well as PCAOB rules regarding ethics and independence, were effective for the 2009 and 2010 Yuhe Audits. In addition, PCAOB Auditing Standard No. 7 was effective for the 2010 Audit.⁴³

The PCAOB also issued interim standards (through rules contained in PCAOB Release No. 2003-006) that essentially adopted the pre-existing professional auditing standards. This included the Generally Accepted Auditing Standards ("GAAS"), attestation standards and quality control standards issued by the Auditing Standards Board, certain former AICPA SEC Practice Section ("SECPS") membership requirements, certain AICPA ethics and independence rules, and certain standards of the Independence Standards Board, as they existed on April 16, 2003. These interim standards remain in effect to the extent they have not been superseded or amended by the PCAOB.⁴⁴ The

⁴⁰ Yuhe International, Inc., Form 10-K for the year ended December 31, 2009, p. F-2; Yuhe International, Inc., Form 10-K for the year ended December 31, 2010, p. F-2.

⁴¹ AU §508.07.

⁴² Sarbanes-Oxley Act of 2002, Sections 101, 103.

⁴³ PCAOB Auditing Standard No. 7 was effective for engagement quality reviews of audits and interim reviews for fiscal years beginning on or after December 15, 2009.

⁴⁴ The PCAOB's interim standards (known as Interim Professional Auditing Standards) were established by five rules (Rules 3200T, 3300T, 3400T, 3500T, and 3600T). Rule 3100, issued by the PCAOB on June 30, 2003, requires all registered public accounting firms to adhere to the PCAOB's standards in

auditing standards used in my analysis, and referenced in this report, are those standards in effect at the relevant periods.

Purpose of an Audit

The independent auditor conducts an audit in accordance with the standards of the PCAOB to express an opinion on whether a company's financial statements present, in all material respects, its financial position, results of operations, and cash flows in conformity with US GAAP.⁴⁵ Essentially, US GAAP governs how companies are required to account for transactions and prepare their financial statements including financial statement disclosures, while the standards of the PCAOB govern the conduct of auditors of public issuers in performance of audits of those financial statements. The financial statements are management's responsibility, while the auditor's responsibility is to express an opinion on those financial statements.⁴⁶

Auditor reports can be characterized as either "general use," meaning they are not restricted as to their use, or "restricted use," meaning they are intended only for specified parties.⁴⁷ It can be expected that general use financial statements will be made available to a myriad of different users other than management and/or a company's board of directors, including but not limited to investors, lenders, major creditors, and regulators. The auditor's report provides each of these users with assurance that the audit was performed in accordance with the standards of the PCAOB and that the financial statements, in the opinion of the auditor, are presented in conformity with US GAAP.

The audit reports for the 2009 and 2010 financial statements of Yuhe, issued by CVB without any indication as to a restriction of use, were included in Yuhe's Form 10-K

connection with the preparation or issuance of any audit report on the financial statements of an issuer. Rule 3200T provides that, in connection with the preparation or issuance of any audit report on the financial statements of an issuer, a registered public accounting firm shall comply with GAAS as in existence on April 16, 2003, to the extent not superseded or amended by the PCAOB.

⁴⁵ PCAOB Auditing Standard No. 1; AU §508.07.

⁴⁶ AU §110.03.

⁴⁷ AU §532.03.

filings and described the auditor's responsibilities in complying with PCAOB standards. These audit reports stated,

*We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. The company is not required to have, nor were we engaged to perform an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.*⁴⁸

Relevant Auditing Standards

PCAOB standards consist of ten basic auditing standards (three general standards covering personal conduct, three standards of fieldwork, and four reporting standards), and a large number of more specific standards that provide guidance on how to implement and comply with the basic standards.⁴⁹ The ten basic auditing standards are included in Exhibit C. The AICPA provides additional guidance through industry-specific accounting and auditing guides and other means including Technical Practice Aids and Audit Risk Alerts.⁵⁰ In my evaluation of the conduct of CVB that is described herein, I have identified the particular relevant auditing standards that were applied in my evaluation.

⁴⁸ Yuhe International, Inc., Form 10-K for the year ended December 31, 2009, p. F-2; Yuhe International, Inc., Form 10-K for the year ended December 31, 2010, p. F-2.

⁴⁹ AU §150; See Exhibit C, attached.

⁵⁰ These materials are available at: <http://www.aicpa.org>.

SUMMARY CONCLUSIONS

Based upon my evaluation of the conduct of CVB and Mr. Anderson and Mr. Van Wagoner, as described herein, my opinions are summarized as follows:

The 2009 Yuhe Audit

- CVB and Mr. Anderson were the successor auditors to Grant Thornton on the 2009 Yuhe audit. As such, they were required by PCAOB standards to “make specific and reasonable inquiries of the predecessor auditor;” CVB and Mr. Anderson failed to make any such inquiries of Grant Thornton as required by those standards.

Rather CVB and Mr. Anderson used and relied upon the work of Grant Thornton despite there being no documentation by CVB or Mr. Anderson regarding:

- Grant Thornton’s resignation before it completed the 2009 Yuhe Audit.
 - Resolution by CVB and Mr. Anderson of the reasons for that resignation.
 - The basis for the use and reliance by CVB and Mr. Anderson of the predecessor auditor’s work as if it were their own.
 - The process undertaken to ensure compliance with PCAOB standards resulting from that use and reliance.
- CVB and Mr. Anderson did not qualify as principal auditors of Yuhe, as was required by PCAOB standards in order for them to issue an audit opinion. Documents produced in this matter show that CVB and Mr. Anderson considered the work of BT Shanghai to be the work of other independent auditors, as that expression is described in PCAOB standards, which, under certain circumstances, would have permitted that consideration.

However, with respect to the work of BT Shanghai in connection with the 2009 Yuhe Audit, that firm did not meet the requirements of PCAOB standards to consider its work as the work of other independent auditors. As a consequence, CVB and Mr. Anderson violated PCAOB standards in its use of BT Shanghai’s work.

Further to this violation of PCAOB standards, CVB and Mr. Anderson’s participation in the 2009 Yuhe Audit would not have been sufficient to permit them to serve as principal auditor, even if BT Shanghai’s work had qualified as the work of other independent auditors. The extent of hours worked by CVB

personnel (totaling slightly more than 100 hours) in contrast to the likely thousands of hours worked by BT Shanghai, as well as the nature and timing of the hours worked by CVB, did not result in sufficient participation by CVB.

As articulated by the PCAOB, rather than the work of other independent auditors, the work of BT Shanghai was work of assistants of CVB and Mr. Anderson and was subject to all of the auditing standards applicable to the employees of CVB.

- CVB and Mr. Anderson failed to comply with their professional responsibilities regarding the use of assistants from outside their firm. As the work of BT Shanghai was the work of assistants to CVB, CVB and Mr. Anderson were required to evaluate and test the work performed by BT Shanghai and to apply their own judgment, as well as additional auditing procedures to comply with PCAOB standards. However, CVB and Mr. Anderson failed to comply with these requirements.

Specifically, CVB and Mr. Anderson:

- Failed to adequately plan and supervise assistants, including failure to design an audit plan responsive to the risks and materiality that should have been (but was not) evaluated by CVB and Mr. Anderson.
 - Failed to obtain sufficient evidential matter. The circumstances of the 2009 Yuhe Audit, as described herein, should have significantly increased the amount of required audit evidence; however, there is no indication that CVB and Mr. Anderson undertook the steps necessary to ensure that such evidence was obtained.
 - Failed to provide appropriate audit documentation. The audit work papers do not provide the information necessary to determine (1) the nature, timing, extent and results of procedures performed and (2) who prepared and reviewed the work papers.
 - Failed to appropriately consider fraud and/or illegal acts. The work papers contain only three work papers specific to the consideration of fraud, each prepared by BT Shanghai prior to CVB's engagement and none of which reflect any judgments or considerations made by CVB.
- CVB, Mr. Anderson and Mr. Van Wagoner failed to exercise due professional care in violation of PCAOB standards. Those standards impose the requirement that auditors exercise professional skepticism, defined as "an attitude that includes a questioning mind and a critical assessment of audit evidence."

The extent of the failures summarized above and, in more detail hereinafter, constitute a violation of the due professional care standard. Moreover, in failing to perform a proper concurring partner review, Mr. Van Wagoner also failed to exercise due professional care.

The 2010 Yuhe Audit

- CVB and Mr. Anderson had no reasonable basis for an opinion on the 2010 Yuhe Audit. As was the case in the 2009 Yuhe Audit, CVB and Mr. Anderson performed only a minor portion of the audit work on the 2010 Yuhe Audit; their work constituting only 295 of 2,444 hours. And as summarized below, the work of CVB and Mr. Anderson, in addition to being only a minor portion of the audit work, evidenced failures in many specific areas of PCAOB compliance.
- CVB and Mr. Anderson failed to comply with their professional responsibilities regarding the use of assistants from outside the firm. Specifically, they failed to appropriately plan and supervise as evidenced by the timeline of work by those assistants contrasted with the work of CVB.
- CVB and Mr. Anderson failed to appropriately assess risk and materiality. Risk assessments were not made by them and were contradicted by circumstances and events in existence at Yuhe.
- CVB and Mr. Anderson failed to appropriately obtain appropriate evidential matter, including such specific audit areas as the Dajiang Acquisition, related party transactions, Yuhe's inability to prepare U.S. GAAP compliant financial statements and ineffective internal controls.
- CVB and Mr. Anderson failed to provide appropriate audit documentation. A reviewer of the work papers is unable to determine when the work papers were prepared.
- Mr. Van Wagoner performed an insufficient engagement quality review. The review by Mr. Van Wagoner, as required by PCAOB standards, violated those standards by failing to identify the several failures by CVB and Mr. Anderson to comply with PCAOB standards, as described herein.
- CVB, Mr. Anderson and Mr. Van Wagoner failed to exercise due professional care. Several issues identified in this report in the Detailed Findings section, should have been subject to a "questioning mind" and to a "critical assessment,"

and there is no documentation in the work papers of any such considerations. Moreover, in each specific instance of failures to comply with PCAOB standards, described herein, CVB, Mr. Anderson and Mr. Van Wagoner failed to exercise due professional care.

DETAILED FINDINGS

The 2009 Yuhe Audit

CVB and Mr. Anderson Were the Successor Auditors to Grant Thornton in the 2009 Yuhe Audit And Failed to Properly Apply the Auditing Standards Relevant to a Successor Auditor

Grant Thornton was engaged in December 2009 to perform the 2009 Yuhe Audit, and resigned from that engagement in early March 2010. AU Section 315 (“AU 315”), *Communications between Predecessor and Successor Auditors*, expressly defines predecessor auditor to include an auditor that “was engaged to perform but did not complete an audit of the financial statements and...has resigned.”⁵¹ Therefore, with respect to the 2009 Yuhe Audit, CVB and Mr. Anderson were the successor auditors to Grant Thornton and were required to apply the procedures set forth in AU 315.

Before accepting an engagement, AU 315 requires the successor auditor to “make specific and reasonable inquiries of the predecessor auditor regarding matters that will assist the successor auditor in determining whether to accept the engagement.” AU 315 required that CVB make inquiries of Grant Thornton that included,

- *Information that might bear on the integrity of management.*
- *Disagreements with management as to accounting principles, auditing procedures, or other similarly significant matters.*
- *Communications to audit committees or others with equivalent authority and responsibility regarding fraud, illegal acts by clients, and internal-control-related matters. The predecessor auditor's understanding as to the reasons for the change of auditors.*

CVB and Mr. Anderson made no such inquiries, and the record provides no evidence of any communication between CVB and Mr. Anderson and Grant Thornton after Grant Thornton’s resignation from the engagement.

⁵¹ AU §315.02- AU §315.09

Mr. Anderson only testified to discussions between him and Mr. Deng of BT-Shanghai and not anyone from the international Grant Thornton firm that had resigned and was no longer associated with the 2009 Yuhe Audit. Mr. Anderson testified,

Q So at this time did you enter into any type of arrangement with Baker Tilly/Grant Thornton for the work that they had already done?

A I don't believe we've ever had a written arrangement with them.

Q So would that have been a verbal arrangement?

A Yes.

Q And who would that be between?

A In this case it would have been between us, CVB, and Henry.

And,

Q Do you know how far along in their work process that Grant Thornton had gotten before they resigned? In terms of percentage of completion of the audit.

A I really can't speak to their procedures, their process. I don't have any way of knowing that.⁵²

However, there was, in fact, a way for Mr. Anderson to have known that, by simply performing the communications with Grant Thornton that the auditing standards required in AU 315, which communications CVB and Mr. Anderson failed to make.

Regarding the use of the work of the predecessor auditor, AU 315 states,

The successor auditor's review of the predecessor auditor's working papers may affect the nature, timing, and extent of the successor auditor's procedures with respect to the opening balances and consistency of accounting principles. However, the nature, timing, and extent of audit work performed and the conclusions reached in both these areas are

⁵² Sworn investigative testimony of Russell Anderson, taken June 26, 2013, pp.120:25-121:10, 113:15-113:21.

*solely the responsibility of the successor auditor. In reporting on the audit, the successor auditor should not make reference to the report or work of the predecessor auditor as the basis, in part, for the successor auditor's own opinion*⁵³ [Emphasis added.]

AU 315 does not contemplate that the successor auditor would actually include, use and rely upon the work of the predecessor auditor, even in the unusual situation where the predecessor auditor would allow it. There is no documentation in the workpapers of such allowance by either the international Grant Thornton firm or by BT-Shanghai, nor is there any documentation of any discussions with Grant Thornton or BT-Shanghai regarding the use of their work.

Regarding significant issues such as the resignation of Grant Thornton, communications with Grant Thornton as the predecessor auditors, and CVB and Mr. Anderson's decision to accept the engagement, PCAOB Accounting Standard No. 3 ("AS 3"), *Audit Documentation*, states,

The auditor must document significant findings or issues, actions taken to address them (including additional evidence obtained), and the basis for the conclusions reached in connection with each engagement.

And,

*The auditor must identify all significant findings or issues in an engagement completion document. This document may include either all information necessary to understand the significant findings, issues or cross-references, as appropriate, to other available supporting audit documentation. This document, along with any documents cross-referenced, should collectively be as specific as necessary in the circumstances for a reviewer to gain a thorough understanding of the significant findings or issues.*⁵⁴

However, there is no documentation in the workpapers regarding:

⁵³ AU §315.13.

⁵⁴ PCAOB Auditing Standard No. 3

- Grant Thornton's resignation,
- resolution by CVB and Mr. Anderson of the reasons for the resignation (the related party loans, Yuhe lacking the ability to prepare its own financial statements in accordance with US GAAP and the high number of audit adjustments identified as a result of audit procedures in prior year audits),
- the use and reliance by CVB and Mr. Anderson of BT-Shanghai's audit work as if it were their own, or
- the process allegedly undertaken to ensure compliance with PCAOB standards resulting from that use and reliance.

Mr Anderson testified to the unusual circumstances of the 2009 Yuhe Audit and the use of BT-Shanghai when he addressed his decision not to use BT-Shanghai in subsequent audits of Yuhe,

...I couldn't reconcile that in my mind, and let Henry [Deng, of BT-Shanghai] know that, "You are Grant Thornton now. Grant Thornton resigned. It is no longer your client. No, we cannot use your people going forward to do this..."⁵⁵

Mr. Anderson did not provide an explanation in his testimony as to how he reconciled this decision in contrast to his and CVB's use of the Grant Thornton work (including that of BT-Shanghai) for the 2009 Yuhe Audit, particularly considering Grant Thornton's resignation and failure to complete its audit.

The following are merely mentioned in CVB's letter to the audit committee on March 31, 2010:

We consider the following deficiencies to be significant deficiencies in internal controls:

- *[The company] has continued to make related party loans to Shandong Yuhe Food Group Co., Ltd... This constituted a prohibited transaction under Section 402 of the Sarbanes-Oxley Act of 2002.*

⁵⁵ Sworn investigative testimony of Russell Anderson, taken June 26, 2013, p. 104:15.

- *Many adjusting and reclassifying journal entries needed to be made to bring the account balances to their proper balances. Such entries, if not made, in a timely manner could result in material misstatements.*⁵⁶

However, CVB's Summary Review Memo erroneously asserted the following matters:

Synopsis of accounting and auditing transactions:

Circumstances that caused significant difficulty in applying auditing procedures: None

Significant Audit Issues:

*Per our discussions in the subsequent events, as well as discussed in the client's DC&P, we had no significant audit issues.*⁵⁷ [Emphasis added.]

CVB and Mr. Anderson Did Not Qualify as Principal Auditors

There are instances where an auditor uses work performed by another independent audit firm or by other independent auditors working under his direction. The auditor may use the work of the other auditors and still issue the audit opinion under some circumstances, but must do so in compliance with the PCAOB auditing standards.

AU Section 543 ("AU 543"), *Part of Audit Performed by Other independent Auditors*, provides guidance to an auditor in deciding whether he can serve as the principal auditor (and therefore issue an audit opinion on an entity's financial statements) while relying, in part, on the audit of "financial statements of one or more subsidiaries, divisions, branches, components, or investments included in the financial statements presented" performed by another independent audit firm. AU 543 states that the auditor must decide "whether his own participation is sufficient" in order to do so, and if so, whether to make reference to the other auditor's work. If his participation is not sufficient, the auditor cannot serve as principal auditor and cannot issue an opinion.

⁵⁶ CVB000005-CVB000009

⁵⁷ CVB000532-CVB000533.

CVB and Mr. Anderson issued an unqualified audit opinion on Yuhe's financial statements for the period ended December 31, 2009, with no reference to the work performed by BT-Shanghai. Documents produced in this matter as well as sworn testimony show that CVB and Mr. Anderson considered the work of BT-Shanghai to be the work of other independent auditors, as contemplated in AU 543, and that "sufficient" participation for the purpose of serving as principal auditor was achieved by exceeding a 50% threshold.⁵⁸ However, BT-Shanghai did not audit "one or more subsidiaries, divisions, branches, components or investments" of Yuhe as was required for AU 543 to be applicable.

The PCAOB issued Staff Audit Practice Alert No. 6, *Auditor Considerations Regarding Using the Work of Other Auditors and Engaging Assistants From Outside the Firm*, ("PCAOB Alert 6") as a "reminder to registered firms concerning a firm's obligations when using the work of other firms or using assistants engaged from outside the firm."⁵⁹ PCAOB Alert 6 emphasized the distinction between using the work of auditors that have audited a subsidiary, division, branch, etc., and engaging staff personnel, or "assistants," (as that term is used in the PCAOB standards) from outside the firm in performing an audit. In this regard, PCAOB Alert 6 states,

*AU sec. 543 does not apply to the use of another auditor's work if that work is anything other than an audit of the financial statements of one or more subsidiaries, divisions, branches, components, or investments of the issuer.*⁶⁰

Therefore, because BT-Shanghai's work was not restricted to a subsidiary, division, branch, component, or investment of Yuhe but rather encompassed all of the audit fieldwork for the entirety of Yuhe (but was not a completed audit), it was incorrect for CVB and Mr. Anderson to consider the work of BT-Shanghai to be that of another

⁵⁸ As discussed in more detail later herein, there is no reference to a 50% threshold in AU §543; this appears to be a concept originated by CVB to defend the alleged adequacy of its participation in the 2009 Yuhe Audit.

⁵⁹ Accordingly, PCAOB Alert 6 does not provide new requirements but rather emphasizes the requirements of pre-existing guidance.

⁶⁰ PCAOB Alert 6, p.3.

independent auditor and attempt to apply AU 543 accordingly. BT-Shanghai were “assistants” of CVB and Mr. Anderson, as described in PCAOB Alert 6, engaged from outside of CVB and subject to all the same auditing standards as employees of CVB.

Insufficient Participation

CVB and Mr. Anderson incorrectly considered the work of BT-Shanghai to be that of another independent audit firm as addressed by AU 543, rather than that of assistants engaged from outside the firm. Further to the error in their application of AU 543 in that regard, CVB and Mr. Anderson’s participation in the 2009 Yuhe Audit would not have been sufficient for the purpose of acting as principal auditor, had AU 543 been applicable. PCAOB Alert 6 notes that a “lack of sufficient participation cannot be overcome by using the work of the other auditor...”⁶¹

CVB’s Audit Program for General Planning Procedures, which was completed by Mr. Bryant on March 29 and 30, 2010, documents that CVB and Mr. Anderson felt they were justified in serving as principal auditor because BT-Shanghai (referred to as “Tin Hua Shanghai” on that document) would perform less than 50% of the work. An excerpt of the audit program is shown below:⁶²

A	communications.		
	3. Determine the extent of involvement, if any, of other audit firms, consultants, specialists, or internal auditors.	SB	Grant Theodor Tin Hua Shanghai performed fieldwork
	a. Determine if our participation in the audit will be sufficient to allow us to serve as the principal auditor.	SB	Appear Proper will perform <50% of work.
	b. If our firm is <i>not</i> the principal auditor, consider inquiring of the principal auditor about matters that may be significant to our audit. (See the “Inquiry of Principal Auditor by Other Auditor” at PCA-CL-14.3.)	N/A	

⁶¹ PCAOB Alert 6, p. 4.

⁶² CVB000750-CVB000753.

In sworn testimony, Mr. Anderson confirmed CVB's position, explaining that "will perform less than 50% of work," as stated in the audit program, meant

*...that Sean's expectation, or our expectation during planning, that Baker Tilly Shanghai will perform less than half of the work, meaning that we would perform more than 50 percent and qualify to be the principal auditor.*⁶³

A review of CVB's attempts to demonstrate that CVB and Mr. Anderson met the 50% threshold in the 2009 Yuhe Audit reveals that their participation was actually significantly less than 50%.⁶⁴

From the beginning of March 2010 to just after the issuance of the audit report, members of the CVB team worked 130 hours on the Yuhe engagement, shown by employee below.⁶⁵

<u>CVB Employee</u>	<u>Hours worked</u>
Russ Anderson	17.50
Sean Bryant	57.25
Sandra Chen	39.00
Marty Van Wagoner	4.50
Others	11.75
Grand Total	<u>130.00</u>

⁶³ Sworn investigative testimony of Russell Anderson, taken June 26, 2013, pp. 129-130.

⁶⁴ AU §543 does not, nor does any auditing guidance, suggest a 50% threshold for determination of principal auditor. It is possible that CVB incorrectly infers the 50% threshold from the SEC requirement set forth at Item 9(e) of Schedule 14A,

If greater than 50 percent, disclose the percentage of hours expended on the principal accountant's engagement to audit the registrant's financial statements for the most recent fiscal year that were attributed to work performed by persons other than the principal accountant's full-time, permanent employees...

However, there is no documentation that CVB considered this disclosure requirement or how it could have determined this disclosure was not required of Yuhe, despite the hours worked by CVB on the 2009 Yuhe Audit presumably being less than those of BT-Shanghai, as explained herein.

⁶⁵ CVB044972; based on the period March 1, 2010 to April 7, 2010.

Of the 130 hours worked by CVB personnel, approximately 108 were worked primarily over the two-week period ending March 31, 2010.⁶⁶ Information identifying the extent of the hours worked by BT-Shanghai has not been made available to me. However, by way of comparison, during the 2010 Yuhe Audit, the audit fieldwork performed by foreign audit personnel amounted to 2,149 hours. It is not possible, in my opinion, to conclude that CVB's hours in connection with the 2009 Yuhe Audit constituted anything other than substantially less than 50% of the total.

Mr. Anderson testified that the determination was more of a qualitative assessment than a quantitative one, based on the "value of the work at every level of the audit" and therefore could be correlated to hours worked times billed rate.⁶⁷ Again, there is no documentation of such a calculation by CVB.

Mr. Van Wagoner also described a possible other basis upon which CVB performed a sufficient portion of the 2009 Yuhe Audit in his sworn testimony,

I still very strongly believe we did well over 50 percent of the work. Perhaps not in hours, but in risk, in – if you weighed it by importance to the audit, if I spent an hour auditing a small prepaid asset, an hour spent auditing stock-based compensation is much, much more important to the audit. So based on a weighted quality level of the audit work being performed, we easily performed more than 50 percent of the work. So I think from either perspective, I felt like we addressed that requirement.

Analysis of the CVB's workpapers, however, demonstrates that Mr. Van Wagoner was incorrect. Every procedure listed on the Audit Program for Equity Accounts was signed off by "Michael," a member of BT-Shanghai, and was dated "2010-2-10" indicating that the steps were performed by BT-Shanghai prior to CVB's engagement.⁶⁸ As noted in the excerpt below (highlight added), stock option calculations were included in the audit procedures performed by BT-Shanghai and not a member of CVB.

⁶⁶ CVB044972; based on the period March 1, 2010 to April 7, 2010.

⁶⁷ Sworn investigative testimony of Russell Anderson, taken June 26, 2013, pp. 129:17-132:1.

⁶⁸ CVB001901-CVB001907.

PCA (508)		3	
Assertions P/D V/A	Audit Procedures for Consideration disclosed in the financial statements.	N/A Performed by and Date	Workpaper Index
	7. Obtain a copy of the client's earnings per share calculation. Recalculate the amount.		
E/O, C, R/O	8. If the company uses an independent registrar or stock transfer agent, confirm the following with the registrar or transfer agent:		
E/O, C, R/O	a. The number of shares authorized.		
E/O, C, R/O	b. The number of shares issued and outstanding.		
E/O, C, R/O	c. Unbilled registrar or transfer agent fees to the date of audit.		
E/O, C, R/O, V/A, P/D	9. If the company has a share-based compensation plan, perform the following procedures:	Michael 2010-2-10	
E/O, C, R/O, V/A, P/D	a. Obtain a copy of the client's schedules of grants, modifications, exercises, settlements, cancellations and forfeitures, and expirations for each plan for the current period. Test for clerical accuracy, compare to note disclosure information, and compare beginning balance to the prior year's workpapers.	Michael 2010-2-10	E6B
E/O, C, R/O, V/A, P/D	b. Read the minutes of the board of directors and compensation committee meetings, if applicable, and compare share-based compensation plan information to the client's schedules in step a. Consider whether awards granted in the period were properly approved.	Michael 2010-2-10	E6B

In addition to stock-based compensation, Mr. Van Wagoner also indicated that financial statement consolidation was an audit area that, if audited by CVB personnel, would push CVB's participation beyond the CVB-asserted threshold of 50%. However, as testified by Mr. Bryant, BT-Shanghai performed all fieldwork. He testified specifically to the audit area of consolidation:

Q And who was responsible for auditing the consolidation work?

A That would have been the Hong Kong team that would have done the consolidation, yeah -- or, I'm sorry, the Baker Tilly team. I'm sorry, we're talking two different periods. 2009 it would have been the Baker Tilly firm.⁶⁹

Given that BT-Shanghai performed all audit field work, including areas identified by Mr. Van Wagoner as high "weighted quality level" such as consolidations and stock-option compensation, Mr. Van Wagoner's methodology does not support his claim that CVB performed a significant portion of the audit, much less more than 50%.

⁶⁹ Sworn investigative testimony of Sean Bryant, taken June 25, 2013, pp. 73:24-74:5.

CVB and Mr. Anderson Failed to Comply With Their Professional Responsibilities Regarding the Use of Assistants from Outside the Firm

As the previous section described, BT-Shanghai was engaged as “assistants” to CVB on the 2009 Yuhe Audit, but a vast majority of its work had been performed prior to CVB being engaged in March 2010. In these circumstances, CVB and Mr. Anderson were required to evaluate and test the work performed by BT-Shanghai and to apply their own judgment as well as additional auditing procedures necessary to comply with the relevant auditing standards.

PCAOB Alert 6 confirmed CVB’s and Mr. Anderson’s responsibilities,

The auditor’s responsibilities related to the work of assistants engaged from outside the firm are governed by the same standards as the auditor’s responsibilities related to the work of assistants who are associated with the auditor’s firm as partner, shareholder, or employee.⁷⁰

As described in PCAOB Alert 6, key considerations in determining the appropriate level of an auditing firm’s involvement in audit work performed by assistants engaged from outside the firm include, but are not limited to, the following:

- *Whether the auditor would be able to obtain information about the knowledge, skill, and ability of the assistants engaged from outside the firm (including their knowledge of PCAOB standards and the relevant financial reporting requirements), and to evaluate the independence of the assistants engaged from outside the firm.*
- *Whether the auditor would be able to properly plan and supervise the work of the assistants engaged from outside the firm and whether the auditing procedures performed by such assistants, in combination with the work performed by individuals from within the firm, would provide sufficient competent evidential matter to afford a reasonable basis for an audit opinion.*
- *Whether the assistants engaged from outside the firm are located in the same country or speak the same language as the auditor or the auditor’s client.*

⁷⁰ PCAOB Alert 6, p. 7.

- *Whether the auditor would be able to comply with the documentation requirements, including the preparation, assembly, and retention of documentation, with respect to the work performed by the assistants engaged from outside the firm.*⁷¹

Mr. Anderson testified that,

Q With regards to the professional standards related to supervision [sic] review, what was the analysis that went into whether or not you could take work that had been done previously and still meet those standards?

*A Our thought process on that is that these employees that were -- these employees of Grant Thornton who were on the ground doing the work were our people first, and the people who were doing the work, we had utilized their work in the previous period so there was really no lapse, or effectively we didn't feel like we had, really, an absence there. There wasn't a significant amount of time that had passed since they had been working for us.*⁷²

However, these “employees” were not, and were never, employees of CVB and had applied a scope of work and conducted auditing procedures that had been decided upon by Grant Thornton and not by CVB.

Moreover, as described in this report, there was a very real lapse from November 2009 to March 2010 during which CVB and Mr. Anderson had no involvement whatsoever with the work performed by BT-Shanghai. CVB and Mr. Anderson were obligated to determine whether it was appropriate to use the work of BT-Shanghai, and if so, what procedures were necessary to verify that the work was performed in compliance with PCAOB auditing standards.

Analogous to these circumstances is that of CVB and Mr. Anderson considering the use of the work of a client’s internal audit function because the work of internal auditors is similarly performed by people engaged outside of the auditor’s firm and can be relied upon, in part, to determine the nature, timing and extent of an auditor’s own work. AU Section 322 (“AU 322”), *The Auditor's Consideration of the Internal Audit Function in*

⁷¹ PCAOB Alert 6, p. 8.

⁷² Sworn investigative testimony of Russell Anderson, taken June 26, 2013, pp. 124:9-124:22.

an Audit of Financial Statements, provides guidance to the auditor on the process of determining whether to use the work of an internal audit function.

AU 322 identifies the following procedures necessary for reliance on such work:

- Assess the competence and objectivity of BT-Shanghai.
- Consider the effect of BT-Shanghai's work on the 2009 Yuhe Audit, and the extent thereon, and
- Evaluate and test the effectiveness of BT-Shanghai's work.⁷³

There is no indication that CVB or Mr. Anderson took any of the above steps in considering whether, and to what extent, it was permitted to use the work of BT-Shanghai.

With respect to the competency of the BT-Shanghai personnel, there is no documentation of the qualifications of the BT-Shanghai personnel that performed work on the 2009 Yuhe Audit.

At the time of the CVB's engagement, BT-Shanghai had essentially completed the audit fieldwork upon which CVB and Mr. Anderson decided it would rely. Mr. Van Wagoner testified, "It seems pretty clear in my mind that GT had done most of the audit and was about to issuance when they were directed or made the decision to not issue."⁷⁴ As such, the use of BT-Shanghai's work, particularly to the extent that CVB and Mr. Anderson did use it, should have been understood to affect practically all areas of the 2009 Yuhe Audit, including but not limited to planning, assessment of risk and materiality, consideration of fraud and illegal acts, obtaining audit evidence and documentation of the audit.

AU 322 notes,

⁷³ AU §322.29.

⁷⁴ Sworn investigative testimony of Marty Van Wagoner, taken June 27, 2013, p. 75:1.

Even though the internal auditors' work may affect the auditor's procedures, the auditor should perform procedures to obtain sufficient, competent, evidential matter to support the auditor's report.

And,

The responsibility to report on the financial statements rests solely with the auditor. Unlike the situation in which the auditor uses the work of other independent auditors, this responsibility cannot be shared with the internal auditors. Because the auditor has the ultimate responsibility to express an opinion on the financial statements, judgments about assessments of inherent and control risks, the materiality of misstatements, the sufficiency of tests performed, the evaluation of significant accounting estimates, and other matters affecting the auditor's report should always be those of the auditor.⁷⁵

Accordingly, it would have been incumbent on CVB and Mr. Anderson to do sufficient evaluation and testing of the work of BT-Shanghai in order to fulfill their responsibilities as regards to the 2009 Yuhe Audit. There is no indication that CVB and Mr. Anderson performed any testing of the work performed by BT-Shanghai, but rather, as described in this report, incorporated the work directly into its own, with only a perfunctory review of the workpapers.

An email from a BT-Shanghai member to Sandra Chen shows that CVB did not begin receiving the workpapers from BT-Shanghai until March 17, 2010.⁷⁶ CVB and Mr. Anderson purport to have completed the audit in only 130 hours. Based on a review of documents provided in this matter, a portion of that time consisted of review and commenting on drafts of Yuhe's Form 10-K. It is inconceivable that CVB and Mr. Anderson would have been able to do the evaluation and testing of BT-Shanghai's work necessary in that time frame, and there is no documentation of any such testing and evaluation.

⁷⁵ AU §322.19

⁷⁶ CVB031087.

CVB and Mr. Anderson Failed to Appropriately Plan and Supervise

The first standard of field work requires that the audit be “adequately planned and assistants, if any, are to be properly supervised.”⁷⁷ CVB failed to meet both of these requirements of AU Section 311 (“AU 311”), *Planning and Supervision*, in the 2009 Yuhe Audit.

Planning

AU 311 requires that auditing procedures be performed based on an audit strategy and plan that is responsive to the risks and materiality identified by the auditors. CVB was engaged after BT-Shanghai had purportedly completed its audit procedures, under planning developed by Grant Thornton (and BT-Shanghai). Also, it is noted in the Wells Submission that “they [CVB and Mr. Anderson] were not primarily responsible for the design of the 2009 procedures...”⁷⁸

CVB did not re-assess the scope of work contemplated or completed by Grant Thornton but rather simply accepted that planning work and those audit procedures, despite the fact that Grant Thornton had resigned as auditors and that Grant Thornton had reached different conclusions about the extent to which internal controls could be relied upon, as described hereinafter.

Given the circumstances of the 2009 Yuhe Audit, CVB and Mr. Anderson should have considered the particular circumstances of the audit and documented its plan to use the work of BT-Shanghai after appropriate evaluation and testing. Instead, CVB and Mr. Anderson utilized planning documents of Grant Thornton and BT-Shanghai as if the procedures performed by BT-Shanghai had been their own.

⁷⁷ AU §150.02.

⁷⁸ Wells Submission of Child, Van Wagoner & Bradshaw, Russell Anderson, and Marty Van Wagoner, dated October 25, 2013, p. 2.

The table below lists the documents identified as related to planning, and that table identifies that the significant areas of risk assessment, internal control reliance, fraud risk and materiality were all performed by BT-Shanghai and were not re-evaluated by CVB:

Planning Activity	W/P Ref	Created		Bates Range
		By	Date	
Planning Memo	n/a	Unidentified	Unidentified	CVB001773-001774
Audit Risk Assessment	2130-01	BT-Shanghai	1/24/2010	CVB002108-002117
Internal Control Reliance Memo	2570	BT-Shanghai	1/22/2010	CVB001882-001885
Fraud Risk	2140	BT-Shanghai	1/24/2010	CVB002359-002363
Materiality	2150	BT-Shanghai	1/19/2010	CVB005211-005217
Client Information	2105	BT-Shanghai	1/24/2010	CVB001532-001541
Audit Program for General Planning Procedures	2101	CVB	3/29/2010	CVB000750-000753
Client Continuance	3100-01	CVB	3/29/2010	CVB000831-000833

Based on my analysis, I am unable to determine who created the Planning Memo (shown below) or when it was created, due to a lack of appropriate sign-off. Beyond acknowledging the timing of the fieldwork to be prior to CVB's engagement, the memo does little more than identify the other planning workpapers listed in the table above. It does not indicate that any other of the issues identified above that required the exercise of professional skepticism were considered or reflected in any planning that may have been performed by CVB and Mr. Anderson. It also references a document, "preliminary analytical review" which purports to document significant procedures, but which could not be located among the documents produced in this matter.

Prepared by: ___ date: ___
Reviewed by: ___ date: ___

YUII
Audit Planning Memo
12/31/09

Tin Hua, Shanghai performed fieldwork on the Client's premises through much of January and the first week of February. The below information will reference planning procedures performed, and the basis for risk assessed and what procedures are required to alleviate or substantiate our audit opinion. The test work will be performed by Tony, Michael, James, John of Grant Thornton.

A significant portion of the planning and procedures to be performed was stated in the preliminary analytical review @ 2160-01

Based on our preliminary analytical review, audit risk and internal control reliance assessment, there are no planned modifications to the audit program.

Related to SAS 99 requirements, we will perform additional procedures relating to fraud including inquiry of management & employees about their knowledge of fraud @2140.

See Audit Risk Assessment @ 2130-01

See Internal Control Reliance Memo @ 2570.

See Fraud Risk @ 2140

See Materiality @ 2150

see Engagement Letter @ 2110

See Client Information @ 2105

See General Planning Procedures @ 2101

See Client Continuance @ 3100-01

The Audit Program for General Planning Procedures, noted in the section of this report regarding AU 543, is a checklist completed by Mr. Bryant. Other than the noted reference to BT-Shanghai, it makes no reference to the unusual circumstances of the audit.

The Client Continuance Form is nothing more than a checklist completed by Mr. Bryant. AU 311 requires certain preliminary engagement activities as part of the planning procedures, which under normal circumstance would occur prior to any other planning or fieldwork being performed. One such required preliminary engagement activity is to perform procedures regarding the acceptance of the engagement or continuance of the current client engagement. The Client Continuance Form included in the produced

documents reflects CVB and Mr. Anderson's treatment of Yuhe as a continuing client. That treatment improperly ignores that Yuhe was not a continuing client and, in fact, Grant Thornton had replaced CVB as auditors and had resigned without completing the 2009 Yuhe Audit. AU 311 requires that, as part of the planning for an audit, the auditor should consider, among other things,

*Conditions that may require extension or modification of audit tests, such as the risk of material error or fraud or the existence of related party transactions.*⁷⁹

The first question on the form asks, "Has the review of information in the 'Engagement Acceptance Form (PCA-CX-1.1) identified any issues?" While Mr. Bryant marks an "X" in the "Yes" column, the Engagement Acceptance Form cannot be located in the documents produced in this matter. On the Client Continuance Form, Mr. Bryant also acknowledges that certain related party loans are a violation of the Sarbanes Oxley Act, Section 402, but dismisses it as "not new".⁸⁰ No other issues are identified on the form. The form is electronically initialed by "RA" (Mr. Anderson) and "mdv" (Mr. Van Wagoner) on March 30, 2010 and March 31, 2010, respectively.

As part of the planning process, AU 311 requires the auditor to "consider the nature, extent, and timing of work to be performed and should prepare a written audit program (or set of written audit programs) for every audit. The audit program should set forth in reasonable detail the audit procedures that the auditor believes are necessary to accomplish the objectives of the audit."⁸¹ Based upon a series of emails between Mr. Bryant and a member of BT-Shanghai, the procedures performed by BT-Shanghai were purportedly based upon audit programs developed by BT-Shanghai prior to fieldwork. As shown in the email exchange below, BT-Shanghai was unable to provide those audit programs to CVB, and it was eventually decided to use the audit programs developed for the audit of Yuhe's financial statements for the year ended December 31, 2008.

⁷⁹ AU §311.03.

⁸⁰ CVB000831-CVB000833

⁸¹ AU §311.05.

03/02/14

CVB017005.htm

From: Sandra Chen [REDACTED]
 Sent: Friday, March 26, 2010 6:53 PM
 To: 赵现波 [REDACTED]
 Cc: Sean Bryant [REDACTED]
 Subject: RE: Re:

Yes use last year. It's better than none. Since we could not get it to work at this moment.

陈静思 Sandra Chen; 美国区经理 DIRECTOR
 环球兄弟会计师事务所 Child Van Wagoner & Bradshaw, PLLC.
 US Call: 801-677-3888; Office: 801-281-4700, fax: 801-281-4701; website: www.cpaone.net
 China mobile: 1362-1201-062

From: 赵现波 [REDACTED]
 Sent: Friday, March 26, 2010 6:57 PM
 To: Sandra Chen
 Subject: Re: Re:

Hi Sandra,

I think that's a good idea, if it can meet your requirements, we will use prior year's copy.

在 2010年3月27日 上午8:50, Sandra Chen [REDACTED] 写道:
 SORRY THERE ARE NO PASSWORD. This is created through from our PPC.
 Could you use last year audit program?

陈静思 Sandra Chen; 美国区经理 DIRECTOR
 环球兄弟会计师事务所 Child Van Wagoner & Bradshaw, PLLC.
 US Call: 801-677-3888; Office: 801-281-4700, fax: 801-281-4701; website: www.cpaone.net
 China mobile: 1362-1201-062

It is remarkable that CVB would consider it appropriate to include the audit program for 2008 on the basis that it was "better than none." That audit program, in no way, would have been responsive to the risks and circumstances applicable to the 2009 Yuhe Audit.

Supervision

Regarding the requirement for assistants to be properly supervised, AU 311 states,

Supervision involves directing the efforts of assistants who are involved in accomplishing the objectives of the audit and determining whether those objectives were accomplished. Elements of supervision include instructing assistants, keeping informed of significant problems encountered, reviewing the work performed, and dealing with differences of opinion among firm personnel. The extent of supervision appropriate in a given

*instance depends on many factors, including the complexity of the subject matter and the qualifications of persons performing the work.*⁸²

AU Section 230 (“AU 230”), *Due Professional Care in the Performance of Work*, also addresses supervision, stating that the “auditor with final responsibility is responsible for the assignment of tasks to, and supervision of, assistants.”⁸³

The guidance makes it clear that supervision requires interaction with those being supervised. Under no circumstances could CVB and Mr. Anderson have supervised BT-Shanghai when BT-Shanghai was performing fieldwork prior to CVB’s engagement. Regardless of the level of review of the work performed by Mr. Bryant once CVB was engaged and BT-Shanghai’s workpapers were provided to CVB, there is no way, in my opinion, to “retroactively” supervise assistants, as allegedly performed by CVB in its Wells Submission.

Regarding the supervision that is alleged to have occurred once CVB was engaged, Mr. Bryant acknowledged in sworn testimony that even his supervision did not provide “close oversight:”

Q So in terms of oversight, and let's just focus on the '09. In terms of oversight, do you feel like you had a close oversight over your team in China or more of a removed oversight function?

*A It happened so fast. I would probably lean more toward removed.*⁸⁴

Based upon review of emails between Mr. Bryant, Ms. Chen and BT-Shanghai members, there was not a substantive review of the workpapers, but rather only requests for missing documents such as the excerpt from an email below.⁸⁵

⁸² AU §311.11

⁸³ AU §230.06.

⁸⁴ Sworn investigative testimony of Sean Bryant, taken June 25, 2013, p 74:6-74:11.

⁸⁵ CVB040055.

From: 赵现波 [REDACTED]
Sent: Friday, March 19, 2010 11:19 PM
To: Sean Bryant
Cc: Sandra Chen; Vincent Hu; [REDACTED]
Subject: Re: Yuhe Audit

Hi Sean,

I am very glad to work with you for YUII.

The audit confirmations D20-1-C and D20-1-D did not come in clear enough to read. Will you please re-scan and send?

Response: See the attachments please.

• Did you do a risk assessment? If so, I have not received it.

Response: Yes, we have done, but it was not convenient to provide to you, it was done through our audit software.

• Did you do some fraud risk discussions? If so, I have no received it.

Response: Yes, we have done, but it was not convenient to provide to you, it was done through our audit software.

• I have not received the audit programs.

Response: Yes, for the audit programs i could not provide to you too, it was also in our audit software.

• I did not receive a materiality checklist.

Response: Yes, for the materiality i could not provide to you too, it was also in our audit software, the amount you can see in TB.

• Did you do any tests of internal controls? If so, I did not receive the work done.

Response: Yes, for the internal controls i could not provide to you too, it was also in our audit software.

• Did you do anything to test subsequent events?

Response: No, we have not done that, as you know, for this procedures need to be done till the reporting day, so now we have not done.

Some requests were sent as late as March 30, 2010, as in the email below:⁸⁶

⁸⁶ CVB015393-CVB015394.

发件人: Sean Bryant [REDACTED]
发送时间: 2010年3月30日 14:43
收件人: Sean Bryant; 赵现波
抄送: Vincent Hu; Sandra Chen; 邓辉; [REDACTED]
主题: RB: 答复: Yube acquisitions of 13 breeders

Tony,

I need the following:

E17-1TH2
E17-1TH2-1
D19-3
E17-1TH3
E17-1TH-4a
E17-1TH-4b
E17-1TH-6a
E17-1TH-6b
E17-1TH-5a
E17-1TH-5b
E17-1YH-3
E17-1YH-4
E17-1YH-6a
E17-1YH-6b
E17-1YH-7
E17-1YH-2
XQ-AFC-1

Thanks,

Sean Bryant
Child, Van Wagener & Bradshaw
Certified Public Accountants

Generally, a review of workpapers by a supervisor will result in questions regarding the procedure performed and the results, often followed by some revision to the documentation of the work performed, if not additional procedures that are determined to be necessary (particularly in these circumstances where CVB was not involved during the time the procedures were planned and executed). Also in these circumstances, it is my opinion that CVB and Mr. Anderson were required to test the work done by BT-Shanghai and to determine, based upon their own independent judgment, the sufficiency of the

scope of the audit procedures and the sufficiency of the audit evidence obtained as a result of those procedures. CVB and Mr. Anderson did none of that. In fact, requests of missing documents sent to BT-Shanghai as late as March 30, 2010, the day CVB and Mr. Anderson issued their audit report, demonstrate the egregiousness of CVB's and Mr. Anderson's conduct.

CVB and Mr. Anderson Failed to Appropriately Assess Risk and Materiality

AU Section 312 ("AU 312"), *Audit Risk and Materiality in Conducting an Audit*, requires the auditor to assess audit risk and materiality, which "among other matters, need to be considered together in determining the nature, timing, and extent of audit procedures and in evaluating the results of those procedures."⁸⁷

As noted in the section of this report regarding planning, CVB and Mr. Anderson did not assess audit risk and materiality. Those functions were performed by BT-Shanghai prior to CVB's engagement and documented on the Audit Risk Assessment Form.⁸⁸ The results of BT-Shanghai's assessments are summarized in the table below:

Audit Area	Inherent Risk	Control Risk	Risk of Material Misstatement	Audit Approach
Cash	High	Moderate	Moderate	Basic
AR/Sales	High	Moderate	Moderate	Extended
Inventory/Cost of Sales	Moderate	Moderate	Moderate	Extended
Property	Moderate	Moderate	Moderate	*n/a
Investments and Derivatives	Low	Low	Low	Limited
Other Assets	Moderate	Moderate	Moderate	Basic
Accounts Payable	Moderate	Moderate	Moderate	Basic
Other Liabilities	Moderate	Moderate	Moderate	Basic
Notes Payable/Long-term Debt	Moderate	Moderate	Moderate	Basic
Income Taxes	Low	Low	Low	Basic

⁸⁷ AU 312.01.

⁸⁸ CVB002108-CVB002117.

Equity	Low	Low	Low	Limited
Income/Expense	Moderate	Moderate	Moderate	Basic

Mr. Anderson testified that Grant Thornton's approach to assessing risk and determining the necessary procedures differed from that of CVB.

So our approach was we started out with substantive testing and did the internal control thing kind of to tell us where the weakest areas were. We didn't test them with a purpose for reliance. And I believe the Grant Thornton workpapers would show that they wanted to rely on internal controls, and had spent a significant amount of time on that. Instead of removing them from the workpapers, we included them.⁸⁹

There was no reconciliation of the fact that BT-Shanghai's work was predicated on some level of control reliance and CVB and Mr. Anderson's assessment that there could be none. Moreover, there is no evidence that CVB or Mr. Anderson performed the significant additional auditing procedures that would have been required by CVB and Mr. Anderson's own assessment that there should be no reliance on internal controls in the 2009 Yuhe Audit.

CVB's approach, as described by Mr. Anderson, would require that CVB and Mr. Anderson designate the control risk for all audit areas as high, i.e., no reliance on Yuhe's controls. The risk of material misstatement of any audit area is a function of the inherent risk and the control risk.⁹⁰ Therefore, based upon the inherent risk levels assessed by BT-Shanghai (and not changed by CVB or Mr. Anderson) and a control risk assessed at high as per CVB's approach, the assessed risk of material misstatement for both cash and accounts receivables/sales would have been assessed as high.

⁸⁹ Sworn investigative testimony of Russell Anderson, taken June 26, 2013, pp. 109:21-110:4.

⁹⁰ Inherent Risk x Control Risk = Risk of Material Misstatement. (See the formulas on the BT-Shanghai's Audit Risk Assessment form.)

Audit Area	Inherent Risk	Control Risk	Risk of Material Misstatement
Cash	High	High	High
AR/Sales	High	High	High

CVB and Mr. Anderson's audit approach that placed no reliance on internal controls, specifically where the risk of material misstatement is assessed to be high, required significantly greater audit procedures than would Grant Thornton's audit approach that contemplated some reliance. There is no evidence that CVB or Mr. Anderson evaluated the work performed by BT-Shanghai on that basis, nor did they perform any additional audit procedures of their own.

CVB and Mr. Anderson Failed to Obtain Sufficient Evidential Matter

The third standard of fieldwork states,

Sufficient competent evidential matter is to be obtained through inspection, observation, inquiries, and confirmations to afford a reasonable basis for an opinion regarding the financial statements under audit.⁹¹

BT-Shanghai performed all of the fieldwork. CVB and Mr. Anderson performed none, but rather incorporated the BT-Shanghai workpapers into their own without any testing of the work performed by BT-Shanghai. There is practically no external evidence, such as vouchers, invoices, etc. included in the workpapers produced in this matter that CVB and Mr. Anderson could have directly inspected or observed. CVB and Mr. Anderson did not re-confirm any cash accounts, receivable balances or payable balances confirmed directly to BT-Shanghai (addressed to Grant Thornton). Based upon review of the documents in this matter, there was little interaction between CVB and Yuhe's management that could be characterized as inquiry for the sake of obtaining audit evidence.

⁹¹ AU §150.02.

Further to the third standard requiring sufficient audit evidence, AU Section 326 (“AU 326”), *Evidential Matter*, states,

*The evidential matter obtained should be sufficient for the auditor to form conclusions concerning the validity of the individual assertions embodied in the components of financial statements. The evidential matter provided by the combination of the auditor's assessment of inherent risk and control risk and on substantive tests should provide a reasonable basis for his or her opinion.*⁹²

The PCAOB further explained the meaning of “sufficient” in PCAOB Accounting Standard No. 15 (“AS 15”), *Audit Evidence*, released on August 5, 2010, stating:

Sufficiency is the measure of the quantity of audit evidence. The quantity of audit evidence needed is affected by the following:

*Risk of material misstatement (in the audit of financial statements) or the risk associated with the control (in the audit of internal control over financial reporting). As the risk increases, the amount of evidence that the auditor should obtain also increases. For example, ordinarily more evidence is needed to respond to significant risks...*⁹³

The circumstances of the 2009 Yuhe Audit, including CVB’s engagement just over three weeks before completion of the audit, Yuhe’s business practices regarding cash, Yuhe’s (and the fieldwork auditors’) lack of understanding of US GAAP, and the reemergence of illegal related party loans should have significantly increased the amount of audit evidence required to be sufficient. However, there is no indication that CVB and Mr. Anderson undertook the necessary steps to ensure that such evidence was obtained.

⁹² AU §326.13.

⁹³ AS 15 paragraph 5; The AICPA included similar language in its revision of AU §326 in 2006: *The quantity of audit evidence needed is affected by the risk of misstatement (the greater the risk, the more audit evidence is likely to be required) and also by the quality of such audit evidence (the higher the quality, the less the audit evidence that may be required). Accordingly, the sufficiency and appropriateness of audit evidence are interrelated.*

AU Section 333 (“AU 333”), *Management Representations*, expands upon the need for the auditor to obtain evidential matter beyond representations made by management. AU 333 states that management representations,

*...are part of the evidential matter the independent auditor obtains, but they are not a substitute for the application of those auditing procedures necessary to afford a reasonable basis for an opinion regarding the financial statements under audit.*⁹⁴

Inventory

AU Section 331 (“AU 331”), *Inventories*, requires the observation of physical inventory counts, or justification by the auditor for not observing:

*Observation of inventories is a generally accepted auditing procedure. The independent auditor who issues an opinion when he has not employed them must bear in mind that he has the burden of justifying the opinion expressed.*⁹⁵

AU Section 310 (“AU 310”), *Appointment of the Independent Auditor*, specifically notes the necessity of inventory observation. In advising an auditor when engaged with only a short time before the deadline to issue, it states,

*Although early appointment is preferable, an independent auditor may accept an engagement near or after the close of the fiscal year. In such instances, before accepting the engagement, he should ascertain whether circumstances are likely to permit an adequate audit and expression of an unqualified opinion and, if they will not, he should discuss with the client the possible necessity for a qualified opinion or disclaimer of opinion. Sometimes the audit limitations present in such circumstances can be remedied. For example, the taking of the physical inventory can be postponed or another physical inventory can be taken which the auditor can observe.*⁹⁶ [Emphasis added.]

CVB and Mr. Anderson did not observe or test any inventory counts as part of the 2009 Yuhe Audit. As part of its fieldwork performed while part of Grant Thornton, BT-

⁹⁴ AU §333.02.

⁹⁵ AU §331.01.

⁹⁶ AU §310.04.

Shanghai performed observations and test counts of Yuhe's inventory counting between December 16, 2009 and December 22, 2009. There is no documentation of any additional counts taken after CVB and Mr. Anderson were engaged nor is there any documentation of CVB's basis for accepting the inventory observation conducted by BT-Shanghai.

Related Parties

AU Section 334 ("AU 334"), *Related Parties*, establishes particular requirements regarding the identification and auditing of related party balances and transactions because,

*...the substance of a particular transaction could be significantly different from its form and that financial statements should recognize the substance of particular transactions rather than merely their legal form.*⁹⁷

For similar reasons, US GAAP requires specific disclosures of related party transactions and Section 402 of the Sarbanes-Oxley Act of 2002 specifically prohibits personal loans to company executives.

In its amended 10-K for the year ended December 31, 2008, Yuhe disclosed that such loans had been made by Yuhe during 2008.

*Management had concluded, as of December 31, 2008, that material weaknesses existed with respect to compliance with Section 402 of the Sarbanes-Oxley Act. As of December 31, 2008, the Company advanced money to four related parties with a total outstanding amount in excess of \$3.7 million, of which, the Company advanced over \$3.5 million to one related party, Shandong Yuhe Food Group Co., Ltd.*⁹⁸

As noted in Yuhe's 8-K, filed on March 11, 2010, Grant Thornton identified that additional prohibited loans had been made,

Grant Thornton noted during its audit procedures that the Company has been unable to eliminate the occurrence of related party loans between the

⁹⁷ AU §334.02.

⁹⁸ Yuhe International, Inc., Form 10-K/A for the year ended December 31, 2008, p. 2.

*Company and Yuhe Food, and the Company concluded that a material weakness continues to exist with respect to the Company's compliance with Section 402 of the Sarbanes-Oxley Act of 2002. The Company's remedial efforts as previously reported on Form 10-K/A have not successfully remediated the material weakness.*⁹⁹

The 8-K further disclosed that Yuhe "continues to make payments under certain arrangements to Yuhe Food, such payments have resulted in related party loans in January and February 2010." It also disclosed that Grant Thornton had resigned from the engagement.

CVB and Mr. Anderson were aware of the prohibited related party transactions disclosed in the prior year's audited financial statements and in the Form 8-K and were aware that Grant Thornton had resigned, in part, because of the existence of those transactions. PCAOB auditing standards clearly describe the auditor's responsibilities with respect to related party and illegal acts. Despite the circumstances regarding Yuhe's related party transactions, the only reference in the workpapers created by CVB (after Grant Thornton had resigned because of illegal loans made after year end) is on a related party audit program prepared by Mr. Bryant. A notation on this audit program confirms that CVB and Mr. Anderson were aware of the loans, stating "A loan was given subsequent to the year-end to the President's other company." However, the audit program provides no additional commentary and calls for no additional auditing procedures related to the existence of these illegal loans.¹⁰⁰

Further illustrating the insufficiency of the procedures performed by CVB and Mr. Anderson regarding related party transactions in the 2009 Yuhe Audit, several weeks after CVB and Mr. Anderson issued the audit report, Mr. Bryant sent an email to a member of BT-Shanghai asking about procedures performed. That message is shown below:¹⁰¹

⁹⁹ Yuhe International, Inc., Form 8-K, filed March 11, 2010, pp.3-4.

¹⁰⁰ CVB001588-CVB001590.

¹⁰¹ CVB029575.

From: Sean Bryant
Sent: Tuesday, April 27, 2010 10:39 PM
To: '赵现波': Vincent Hu
Subject:

Tony,

Outside of the one workpaper you sent us listing all related parties, what additional items did you do or what information did you recover from Yuhe to identify **ALL** related parties?? What additional requirement does GT perform to verify related parties. If you have any additional information, please send.

thanks,

Tony, of BT-Shanghai, replies as follows:

As to the workpaper and procedures about the related party, there is not any other workpapers that i can sent to you, for this procedures were done in our audit software (Voyager), but i can give you a summary about the procedures we done:

First, for the related parties information was been provided by the management themselves.

Second, we inquired the Chief accounting officer (Mr. Jiang yiqiang), if there were any other related parties that have not been covered by above PBC list.

Third, we reviewed the 10K and other released files, to find some information about the related party and discussed them with Chief accounting officer too.

Forth, both during our pre-audit and substantive test, we all give enough attention to the indications that may lead to a related pary or related party transactions.

Basically, that is the main procedures to identify related party.¹⁰²

Mr. Bryant and Mr. Anderson testified that this exchange was not related to the documentation of the 2009 Yuhe Audit. While the conversation may not have been initiated because of the audit, it demonstrates that the documentation of the procedures

¹⁰² CVB029575. The excerpt was taken verbatim from the produced document and includes several grammatical errors due presumably to language and translation difficulties of the author.

performed by BT-Shanghai on related party transactions as retained by CVB was deficient and that CVB and Mr. Anderson did not properly audit those transactions or understand what auditing had actually been done by BT-Shanghai.

CVB and Mr. Anderson Failed to Provide Appropriate Audit Documentation

In defining the requirements of an auditor's workpapers, AS 3 states,

Audit documentation must contain sufficient information to enable an experienced auditor, having no previous connection with the engagement:

- *To understand the nature, timing, extent, and results of the procedures performed, evidence obtained, and conclusions reached, and*
- *To determine who performed the work and the date such work was completed as well as the person who reviewed the work and the date of such review.*

And,

Prior to the report release date, the auditor must have completed all necessary auditing procedures and obtained sufficient evidence to support the representations in the auditor's report. A complete and final set of audit documentation should be assembled for retention as of a date not more than 45 days after the report release date (documentation completion date).

The workpapers as produced certainly have not been "assembled for retention" nor in a manner that would facilitate one without previous connection to the 2009 Yuhe Audit to easily determine proper compliance with AS 3. Any work paper that does not provide the information necessary to determine 1) the nature, timing, extent and results of procedures performed, evidence obtained and conclusions reached and 2) who prepared and reviewed the work paper and when, represents a failure on the part of CVB and Mr. Anderson to properly document the 2009 Yuhe Audit. An analysis of the workpapers

relating the audit of cash, for instance, is provided below, with required information that is missing highlighted:¹⁰³

Bates Beginning	Bates Ending	W/P Ref/ File Name	Date Prepared	Preparer	Reviewer
CVB000136	CVB000138	Bank Confirmation #9	Unidentified	Unidentified	CVB
CVB000505	CVB000513	Reconciliation	Unidentified	Unidentified	CVB
CVB000514	CVB000517	Cash lead	Unidentified	Unidentified	CVB
CVB000534	CVB000543	Schedule of bank accounts	Unidentified	Unidentified	CVB
CVB000583	CVB000585	Bank Confirmation #8	Unidentified	Unidentified	CVB
CVB000748	CVB000749	Confirmation	Unidentified	Unidentified	CVB
CVB001221	CVB001222	55.3.1 Test of controls form	1/24/2010	John (BT-Shanghai)	CVB
CVB001324	CVB001326	Bank Confirmation #3	Unidentified	Unidentified	CVB
CVB001542	CVB001547	55.2.1 Cash Internal ControlTH	1/23/2010	John (BT-Shanghai)	CVB
CVB001548	CVB001549	55.3.1 Test of controls formTH	1/23/2010	John (BT-Shanghai)	CVB
CVB001760	CVB001761	55.3.1 sample planning formTH	1/23/2010	John (BT-Shanghai)	CVB
CVB001775	CVB001780	55.2.1 Cash Internal Control	1/23/2010	John (BT-Shanghai)	CVB
CVB001795	CVB001797	Bank Confirmation #4	Unidentified	Unidentified	CVB
CVB001891	CVB001892	55.3.1 sample planning form	1/23/2010	John (BT-Shanghai)	CVB
CVB002032	CVB002034	Bank Confirmation #5	Unidentified	Unidentified	CVB
CVB002093	CVB002095	Bank Confirmation #7	Unidentified	Unidentified	CVB
CVB002133	CVB002136	PCA-AP-3 Audit Program for Cash	1/29/2010	John (BT-Shanghai)	CVB
CVB002436	CVB002438	Bank Confirmation #6	Unidentified	Unidentified	CVB
CVB002578	CVB002581	Bank Confirmation #1	Unidentified	Unidentified	CVB
CVB002597	CVB002604	Cash on hand	Unidentified	Unidentified	CVB
CVB002724	CVB002729	cutoff of check	Unidentified	Unidentified	CVB
CVB002918	CVB002921	Bank confirmation	Unidentified	Unidentified	CVB
CVB003115	CVB003122	Significant payment by Cash and Bank	Unidentified	Unidentified	CVB
CVB005194	CVB005195	55.1.1 cash receipt and disbursement	1/23/2010	John (BT-Shanghai)	BT-Shanghai/

¹⁰³ It may be possible, however, to determine some of the missing information from analysis of the document's "metadata", but one should not have to analyze things such as the author of a Microsoft Excel file to attempt to determine who prepared a work paper.

					CVB
CVB005198	CVB005199	55.1.1 cash receipt and disbursementTH	1/24/2010	John (BT-Shanghai)	BT-Shanghai/ CVB

CVB and Mr. Anderson Failed to Appropriately Consider Fraud and/or Illegal Acts by Yuhe

AU Section 316 (“AU 316”), *Consideration of Fraud in a Financial Statement Audit*, requires the auditor to perform specific procedures in addressing the risk of fraud. It repeats the requirement for professional skepticism and requires specific documentation of the procedures related to the consideration of fraud.¹⁰⁴ AU Section 317 (“AU 317”), *Illegal Acts by Clients*, instructs the auditor to be aware of the possibility of illegal acts and provides guidance to the auditor in the circumstance that an illegal act by the client has been identified.¹⁰⁵

We identified only three workpapers specific to the consideration of fraud. All were prepared by BT-Shanghai prior to CVB’s engagement. The first is a document titled *Fraud Risk*, and is identified as documentation of an “Engagement Team Discussion: SAS 99 Brainstorming Session.”¹⁰⁶ The document notes that only BT-Shanghai members were involved in the discussion of the potential for fraud by management. An analysis of the documents produced in this matter shows that the document is identical to the comparable document included in the 2008 audit of Yuhe’s financial statements with only the names of the BT-Shanghai team members changed.

The second document is one titled *Considering, Identifying and Responding to Fraud Risk (Factors)* and is also identical to the comparable document included in the 2008 audit of Yuhe’s financial statements, including reference to “Baker Tilly,” with only the date changed.¹⁰⁷ The document includes the notation, as a response by BT-Shanghai to the identified fraud risks, “Assignment of more experienced audit personnel to the

¹⁰⁴ AU §316.

¹⁰⁵ AU §317.

¹⁰⁶ CVB000067-CVB000068.

¹⁰⁷ CVB001781-CVB001787.

engagement or increased supervision of engagement personnel.” There is no documentation by BT-Shanghai, CVB or Mr. Anderson that the newly assigned BT-Shanghai staff had such experience or was supervised appropriately by BT-Shanghai. They could not have been supervised by CVB.

The third document, titled *Fraud Risk Information Form*, was prepared by BT-Shanghai on January 24, 2010, prior to CVB and Mr. Anderson’s engagement.¹⁰⁸ There is no documentation that CVB or Mr. Anderson performed its own fraud risk assessment.

In addition, based upon review of the documents provided in this matter, there is no documentation of the procedures, considerations or communications required by AU 317 as a result of the prohibited related party transactions identified by Grant Thornton, which was the reason for their resignation. See the separate section in this report regarding related parties.

CVB, Mr. Anderson and Mr. Van Wagoner Failed to Exercise Due Professional Care

The third general auditing standard requires the auditor to perform his duties with “due professional care.” That requirement extends to all facets of the audit, including planning, supervision, field work and reporting. It also extends to the role of concurring partner. It explicitly imposes the requirement for auditors to follow auditing standards, and it also requires the auditor to exercise professional skepticism.

In their performance of the 2009 Yuhe Audit, CVB, Mr. Anderson and Mr. Van Wagoner also failed to exercise the appropriate level of professional skepticism required by AU Section 230 (“AU 230”), *Due Professional Care in the Performance of Work*, given the circumstances surrounding the audit. AU 230 defines professional skepticism as “an attitude that includes a questioning mind and a critical assessment of audit evidence.”¹⁰⁹

¹⁰⁸ CVB002359-CVB002363.

¹⁰⁹ AU §230.07.

CVB, Mr. Anderson and Mr. Van Wagoner were aware, or should have been aware, of the following issues affecting the 2009 Yuhe Audit. As indicated in the separate sections below, there is no indication that CVB, Mr. Anderson or Mr. Van Wagoner considered these issues with a “questioning mind,” if they considered them at all, nor is there indication that they performed any testing of BT-Shanghai’s work, much less performed a “critical assessment,” as such considerations and assessments would have been documented in the audit workpapers:

- The resignation of Grant Thornton due to recurrence of related party loans and Yuhe’s inability to prepare GAAP financial statements and a material weakness in internal controls over financial reporting¹¹⁰
- The timing of the engagement of CVB and the related decision to use the BT-Shanghai workpapers
- Yuhe’s inability to prepare its own financial statements in accordance with US GAAP¹¹¹ and the high number of audit adjustments identified as a result of audit procedures in prior year audits
- The past instances of prohibited related party transactions entered into by Yuhe (see separate section of this report regarding related parties for additional information)
- Yuhe’s business practices, particularly those related to cash, which was used for the majority of its transactions. (According to a workpaper prepared by BT-Shanghai, “There is no account receivable account. The company receives sale payment by cash on the date of delivery.”¹¹²)
- Allowing a large part of the audit work performed by CVB to be performed by a non-CPA senior staff accountant, while acting in a manager capacity¹¹³
- The geographical separation between CVB in the United States and all of the operations of Yuhe in China

CVB, Mr. Anderson and Mr. Van Wagoner failed to exercise due professional care throughout the performance of the 2009 Yuhe Audit. In each instance of CVB and Mr.

¹¹⁰ Yuhe International, Inc., Form 8-K, filed March 11, 2010, pp.3-4.

¹¹¹ CVB002108-CVB002117.

¹¹² CVB001532.

¹¹³ Sworn investigative testimony of Russell Anderson, taken June 26, 2013, pp. 185:14 – 186:11.

Anderson failing to act in accordance with the PCAOB auditing standards identified herein, including failing to communicate with Grant Thornton as predecessor auditor and misapplying AU 543, as well as each of the other audit failures previously described, they failed to exercise due professional care. Such failures are discussed in separate sections in this report but given the extent of those failures and the minimal participation in the audit, the issuance of an audit opinion by CVB and Mr. Anderson, in my opinion, is a violation of the due professional care standard, in and of itself. In failing to perform a proper concurring partner review that should have identified such audit failures, Mr. Van Wagoner also failed to exercise due professional care.

The 2010 Yuhe Audit

CVB and Mr. Anderson Had No Reasonable Basis for an Opinion in the 2010 Yuhe Audit

For the 2010 Yuhe Audit, CVB and Mr. Anderson did not use the services of BT-Shanghai. Instead, they utilized the services of Tom Cheng, for most audit procedures, and RSM-China, for inventory observations and “understanding of internal control procedures”.¹¹⁴

As was the case in the 2009 Yuhe Audit, however, CVB and Mr. Anderson performed only a minor portion of the audit work on the 2010 Yuhe Audit. Over the period November 15, 2010 (the date of CVB’s engagement letter) to April 9, 2011, a total of 2,444.00 hours were worked on the 2010 Yuhe Audit by CVB, Tom Cheng and RSM-China, presented by firm below:

<u>Accounting Firm</u>	<u>Hours worked</u>	
CVB: ¹¹⁵		
Russ Anderson	51.25	
Sean Bryant	123.00	
Sandra Chen	87.50	
Marty Van Wagoner	7.25	
Others	26.00	
CVB - Total	295.00	295.00
RSM-China ¹¹⁶		920.00
Tom Cheng ¹¹⁷		1,229.00
		<u>2,444.00</u>

Though CVB and Mr. Anderson were engaged in November 2010, approximately four and a half months prior to issuing their report, the time spent by CVB on the 2010 Yuhe

¹¹⁴ Sworn investigative testimony of Russell Anderson, taken June 26, 2013, pp. 47-48; Sworn investigative testimony of Sean Bryant, taken June 25, 2013, pp.263-264.

¹¹⁵ CVB044972; based on the period November 15, 2010 to April 9, 2011.

¹¹⁶ CVB044112.

¹¹⁷ CVB044967-CVB044970.

Audit was only twice as much time as was spent by CVB on the 2009 Yuhe Audit in the three weeks from engagement to the issuance of their report. That additional time represented approximately 34 hours by Mr. Anderson, 66 hours by Mr. Bryant and 49 hours by Ms. Chen, but the combined CVB employees' hours only represented 12% of the total engagement team, while Tom Cheng performed 50% and RSM-China 38%, or a combined 88%.

<u>Firm</u>	<u>Hours Worked</u>	
CVB	295.00	12%
RSM-China	920.00	38%
Tom Cheng	1,229.00	50%
	<u>2,444.00</u>	<u>100%</u>

CVB and Mr. Anderson's minimal participation in the 2010 Yuhe Audit and its violation of the PCAOB auditing standards described in separate sections in this report, in my opinion, did not provide CVB or Mr. Anderson a reasonable basis to provide an opinion on Yuhe's financial statements for the year ended December 31, 2010.

CVB, Mr. Anderson and Mr. Van Wagoner Failed to Comply With Their Professional Responsibilities Regarding the Use of Assistants from Outside the Firm

Similar to the 2009 Yuhe Audit, CVB and Mr. Anderson used assistants from outside the firm in the 2010 Yuhe Audit – Tom Cheng and RSM-China. PCAOB Alert 6 emphasized the responsibilities of CVB and Mr. Anderson to, among other things, consider the following regarding the use of staff from outside the firm:

- Knowledge, Skill, Ability and Independence
- Planning and Supervision
- Audit Documentation
- Engagement Quality Review

There is no documentation of CVB's and Mr. Anderson's decision to accept the engagement with the intention of using Tom Cheng and RSM-China, much less their

consideration of the specific issues regarding that decision as noted by PCAOB Alert 6. Much as they did in the 2009 Yuhe Audit, CVB and Mr. Anderson failed to properly perform those functions in the 2010 Yuhe Audit.

CVB and Mr. Anderson Failed to Appropriately Plan and Supervise and Failed to Appropriately Consider Fraud and/or Illegal Acts by Yuhe

CVB and Mr. Anderson were required by the PCAOB auditing standards to properly plan the 2010 Yuhe Audit work, including consideration of fraud and illegal acts, prior to directing any of the auditing work that was to be conducted by Tom Cheng and RSM-China. However, the timeline of events created from a review of the documents produced in this matter indicates this did not occur and CVB did not properly supervise the work performed by Tom Cheng or RSM-China, who performed the actual auditing procedures:

- November 15, 2010: CVB was engaged to perform the 2010 Yuhe Audit.¹¹⁸
- December 1, 2010: Mr. Bryant sent an email to Mr. Hu, CFO of Yuhe that stated Tom Cheng would assign someone for “the upcoming Yuhe inventory observation,” indicating that CVB is not involved in the assignment of Tom Cheng or RSM-China staff for the engagement.¹¹⁹
- December 14, 2010: Tom Cheng submitted an invoice to CVB for \$6,726 representing 96 hours of service related to Yuhe, plus expenses.¹²⁰ Comparatively, CVB personnel had worked 16.25 hours during the period November 15, 2010 to December 14, 2010.¹²¹ There is no indication that CVB or Mr. Anderson had provided any planning documentation to Tom Cheng personnel or had provided any supervision to Tom Cheng at this point.
- December 16, 2010: RSM-China completed its inventory observations, with no apparent supervision.¹²² There is no indication that CVB or

¹¹⁸ CVB066163-CVB066166.

¹¹⁹ CVB066244.

¹²⁰ CVB044968.

¹²¹ CVB044972.

¹²² CVB044112.

Mr. Anderson had provided any planning documentation to RSM-China personnel or had provided any supervision to RSM-China at this point.

- January 13, 2011: Mr. Bryant sent Arnold Tsang of Tom Cheng the following prior year workpapers: Inventory, Miscellaneous Current Assets, Other Liabilities and Other Operating Expense to Tom Cheng.¹²³
- January 15, 2011: Mr. Tsang sent Christie Cai of RSM-China an email stating that they needed assistance in the following areas:
 - A. *Internal control documentation for both PRC Yuhe and Taihong*
 - B. *Inventory and cost of sales section for both PRC Yuhe and Taihong*
 - C. *Permanent file information update*
 - D. *Detailed information of each form*
 - E. *Distribution of henhouses and hatchery [sic]*¹²⁴
- January 17, 2011: Mr. Anderson scheduled a meeting on January 18th with Mr. Bryant to have a “fraud risk discussion” for Yuhe, four days after sending workpapers to Mr. Tsang, and one month after RSM-China had performed its inventory observation procedures.¹²⁵
- January 24, 2011: Mr. Bryant and Ms. Chen exchanged emails evidencing that Tom Cheng had not yet been provided fraud risks and planning despite being expected to finish the field work by January 31, 2011. Mr. Bryant acknowledged that it is “wrong to give [Mr. Tsang] the Fraud Risks and planning late...”¹²⁶
- January 25, 2011: Mr. Tsang distributed the “related party list” to members of Tom Cheng, CVB and RSM-China, six days before field work was expected to be complete.¹²⁷

¹²³ CVB051581-CVB051582.

¹²⁴ CVB052947.

¹²⁵ CVB063701.

¹²⁶ CVB051494-CVB051496.

¹²⁷ CVB051472.

- January 25, 2011: A fraud risk discussion was held with members of CVB, Tom Cheng and RSM-China, six days before field work is expected to be complete. That same day, Mr. Bryant asked via email for a staff member of CVB to incorporate a fraud risk discussion memo and "Yuhe 2010 analytics" into the audit binder. The fraud discussion memo stated that the discussion was held on January 18th and January 25th, and it detailed the items discussed and which audit team members would work on the related audit areas.¹²⁸ At that time, the field work was expected to be complete in six days.
- January 27, 2011: RSM-China completed its first segment of fieldwork two days after receiving a list of related parties and participating in the fraud discussion.¹²⁹
- February 2, 2011: Tom Cheng submitted an invoice to CVB for \$42,562 representing 762 hours of service related to Yuhe, plus expenses, approximately one week after participating in the fraud discussion.¹³⁰ Comparatively, CVB personnel had worked 95.1 hours during the period December 15, 2010 to February 2, 2011.¹³¹
- February 18, 2011: RSM-China completed its second and final segment of fieldwork.¹³²
- February 22, 2011: Tom Cheng submitted a final invoice to CVB for \$21,317 representing 371 hours of service related to Yuhe, plus expenses. Comparatively, CVB personnel had worked 26 hours during the period February 3, 2011 to February 22, 2011.¹³³
- March 8, 2011: Mr. Bryant received internal control workpapers. He sent a message to Ms. Cai that said "...as it stands, I cannot include the attached in our workpapers because it does not properly support the work of our financial statement audit."¹³⁴

¹²⁸ CVB051472-CVB051473.

¹²⁹ CVB044112.

¹³⁰ CVB044967.

¹³¹ CVB044972.

¹³² CVB044112.

¹³³ CVB044972, CVB044969.

¹³⁴ CVB050985-CVB050986.

- March 14, 2011: Mr. Bryant received workpapers from Tom Cheng, noting to Mr. Hu that he was “only half way through the 10-K” presumably indicating his review of a draft of Yuhe’s Form 10-K.¹³⁵
- March 28, 2011: A discussion was held with Mr. Hu regarding the consideration of fraud.¹³⁶
- March 31, 2011: CVB and Mr. Anderson issued their audit report on Yuhe’s financial statements as of December 31, 2010. CVB personnel had worked 155.15 hours during the period February 23, 2011 to March 31, 2011, representing 53% of the time worked by CVB on the 2010 Yuhe Audit.¹³⁷

The above analysis indicates that the planning procedures performed by CVB were either non-existent, deficient, or not timely, including those related to fraud. CVB’s planning was generally performed after Tom Cheng and RSM-China had performed its inventory observations and after a large portion of the field work of Tom Cheng and RSM-China was complete. CVB and Mr. Anderson’s planning was also deficient in its failure to appropriately address the risks that existed as noted in a separate section in this report, including failing to consider (or at a minimum, document consideration of) illegal acts, particularly the company’s past prohibited related party transactions.

As noted above, the nearly 300 hours CVB spent on the 2010 Yuhe Audit represented only 12% of the total engagement time. However, the analysis above shows that only 137.35 of those had been worked by CVB before Tom Cheng and RSM-China completed the 2,149 hours they billed to CVB.¹³⁸ The disparity in hours worked on the engagement, and the periods in which each performed the work, demonstrate that CVB and Mr. Anderson did not properly supervise the foreign staff. The interactions on December 1, 2010 and January 16, 2011 show that Mr. Tsang of Tom Cheng, rather than CVB personnel, was assigning staff audit responsibilities. This lack of supervision by CVB

¹³⁵ CVB056836.

¹³⁶ CVB44140-CVB44143.

¹³⁷ CVB044972.

¹³⁸ 16.25 hours + 95.1 hours + 26 hours = 137.35 hours.

and Mr. Anderson further supports that CVB and Mr. Anderson did not have a reasonable basis to issue an audit opinion on Yuhe's financial statements for the year ending December 31, 2010.

CVB and Mr. Anderson Failed to Appropriately Assess Risk and Materiality

CVB's and Mr. Anderson's failure to properly plan the 2010 Yuhe Audit included, among other failures, the lack of a proper risk assessment prior to the beginning of audit procedures.

The files sent to Mr. Bryant by Mr. Tsang on March 14, 2011 that represented the workpapers of Tom Cheng included separate Microsoft Excel files for Yuhe Poultry, Yuhe Feed, Brightstand and the parent Company, Yuhe International, Inc. Each file included many tabs, each tab representing a "workpaper." A separate audit risk analysis for each entity was included in the files. There is nothing to indicate that Mr. Bryant or Mr. Anderson reviewed these analyses until they were sent to CVB two weeks before issuance of the audit report.

The audit risk analyses that were prepared for each entity reach the same conclusions and risk assessments for all four entities. For the 2010 Yuhe Audit, Tom Cheng assessed the control risk for each financial statement assertion for all audit areas as "max," and the inherent risk as either moderate or low for all, which resulted in assessments of the risk of material misstatement as moderate, except for Fixed Assets (Valuation), Revenues (Cutoff) and Expenses (Cutoff), as shown in the table below:

Audit Area	Inherent Risk	Control Risk	Risk of Material Misstatement	Audit Approach	Response/ Comments
Fixed Assets and Intangible					
Existence/Occurrence	Moderate	Max	Moderate	Basic	No modifications
Completeness	Low	Max	Moderate		

Rights or Obligations	Moderate	Max	Moderate		on Audit Program, see AP-Basic Approach...
Valuation/Allocation	High	Max	High		
Presentation/Disclosure	Moderate	Max	Moderate		
Revenues					
Existence/Occurrence	Moderate	Max	Moderate	Extensive	No modifications on Audit Program, see AP-Extensive Approach...
Completeness	Low	Max	Moderate		
Rights or Obligations	Moderate	Max	Moderate		
Valuation/Allocation	Moderate	Max	Moderate		
Presentation/Disclosure	Moderate	Max	Moderate		
Cutoff	High	Max	High		
Gains on disposition					
Existence/Occurrence	High	Max	Moderate	Extended	No such things happened for the year.
Completeness	High	Max	Moderate		
Rights or Obligations	High	Max	Moderate		
Valuation/Allocation	High	Max	Moderate		
Presentation/Disclosure	High	Max	Moderate		
Cutoff	High	Max	High		
All other audit areas/assertions	Low or Moderate	Max	Moderate	N/A for Inventory; Basic for all others	

The items noted below, however, contradict the appropriateness of the moderate or low risk assessments made by Tom Cheng, and further reflect that CVB and Mr. Anderson performed nothing more than a perfunctory review when incorporating Tom Cheng's workpapers into its own.

- A comparison to the audit risk assessments included in the workpapers for the 2009 Yuhe Audit reveals that the inherent risk was assessed as high in 2009 for

both cash and accounts receivables/sales but was a range of low to moderate and low, respectively in 2010. There is no explanation for the lowered assessment of inherent risk for either of these audit areas, and in fact, the Audit Completion Document states that nothing had changed.¹³⁹

However, a SEC comment letter received by Yuhe on December 14, 2010 regarding its cash accounts,¹⁴⁰ along with the high level of cash activity at the company, demonstrate that the lowered assessment for cash was not appropriate. The SEC raised questions regarding the use of personal bank accounts at Yuhe, but Tom Cheng assessed, and CVB accepted, an assessment of low inherent risk on all assertions for cash, including “rights and obligations.”

- The SEC also questioned Yuhe about its ability to correctly prepare its financial statements in accordance with US GAAP.¹⁴¹ A lack of understanding of US GAAP increases the inherent risk of a misstatement, particularly due to incorrect valuation or disclosures. In years prior to 2010, Yuhe had utilized the services of a third party to assist in the preparation of its SEC filing. Mr. Bryant became aware that Yuhe had not hired a third party firm to assist in the preparation of its 2010 financial statements on March 14, 2011.

On March 24, 2011, CVB put Mr. Hu in contact with Tony Todd of Kingery & Crouse, CPA's for assistance with the completion of Yuhe's Form 10-K.¹⁴² On March 30, 2011, after six days of providing assistance to Yuhe, Mr. Todd sent a message to Mr. Anderson that stated, “In my view, this 10-K is currently nowhere near being ready to file” and said he would not be available over the next couple of days due to travel.¹⁴³

The assessed inherent risks for these financial statement assertions, however, were either moderate or low for all audit areas (except fixed assets) and all audit approaches were left at “basic” (except for revenue), and these assessments were not changed despite Mr. Todd's message.

- The risk of a material misstatement due to the incorrect valuation of fixed assets was reflected in the audit risk analysis, but the audit approach was left at “basic” with no explanation as to how a basic audit approach addressed the heightened risk.

In fact, the remaining payments with respect to the Dajiang Acquisition had yet to be made to the seller by end of 2010, despite the previous disclosure that the

¹³⁹ CVB044136.

¹⁴⁰ Letter from U.S. Securities and Exchange Commission to Mr. Gao Zhentao, dated December 14, 2010.

¹⁴¹ Letter from U.S. Securities and Exchange Commission to Mr. Gao Zhentao, dated December 14, 2010.

¹⁴² CVB050789-CVB050790.

¹⁴³ CVB050293-CVB050294.

transaction would be completed by early 2010. Uncertainty to the finalization of a material transaction such as the Dajiang Acquisition should have been reflected in the assessment of the inherent risk of fixed assets. The assessed level of inherent risk, as to assertions of existence and rights and obligations were left at moderate, and again, no change to the audit approach beyond basic.

Despite these circumstances, CVB and Mr. Anderson performed no additional procedures and did not re-assess the risks of material misstatement. See additional discussion regarding the farms at the separate section in this report that discusses audit evidence.

Materiality

Assessment of materiality is an important part of the planning of an audit. Establishing a lower threshold of materiality typically requires a greater reliance on sufficient and appropriate audit evidence than a higher one. The workpapers prepared by Tom Cheng included a worksheet for each entity that used a standard formula to establish the materiality level. According to the forms, the level was set in late January, but there is no indication that anyone from CVB reviewed the calculations before the workpapers were sent to Mr. Bryant on March 14, 2011.

The formula first required the establishment of a base amount. In the case of Yuhe, that base amount was net assets (because it was larger than total revenue and net income). The base amount was then used to determine planning materiality based on a table provided on the form. The materiality calculation on the work sheets prepared by Tom Cheng resulted in a planning materiality of \$850,000 ($\$153,000 + 0.52\%$ of total assets of \$135.4 million) and a tolerable misstatement of \$630,000 (75% of the planning materiality).¹⁴⁴ The table used in the form is shown below.

¹⁴⁴ For instance, CVB043713 and CVB043774.

If the Base Amount (Larger of total assets or total revenue) is:		Planning Materiality is:
Over	But Not Over	Amount + (Percent of Base)
\$0	\$100 thousand	0 + 2.0%
\$100 thousand	\$300 thousand	2000 + 2.0%
\$300 thousand	\$1 million	7000 + 2.0%
\$1 million	\$5 million	8000 + 0.5%
\$5 million	\$10 million	12000 + 0.2%
\$10 million	\$30 million	22000 + 0.2%
\$30 million	\$100 million	73000 + 0.6%
\$100 million	\$300 million	183000 + 0.2%
\$300 million		203000 + 0.5%

Example: If the base amount were \$3.5 million, then the planning materiality amount would be as follows:
 $\$23,000 + (0.007 \times \$35,000,000) = \$268,000$, rounded to \$260,000.

Mr. Bryant prepared another materiality calculation, based on the same form and formulaic model as Tom Cheng, on March 31, 2011. Mr. Bryant, however, selected a planning materiality amount from the incorrect row from the table on the form, resulting in a planning materiality of \$470,000 ($\$73,000 + 0.6\%$ of total assets of \$131.2 million and a tolerable misstatement of \$350,000 (75% of planning materiality), each significantly lower than the calculations made by Tom Cheng.¹⁴⁵ There is no indication that he identified the half million dollar variance.

Also, a comparison of the table to calculate the materiality level to that of the prior year reveals a significant change in the formula. The formula used in the 2009 Yuhe Audit set planning materiality, for a base amount above \$100 million (the highest level shown in 2009), to be $\$185,000 + 0.18\%$ of the base amount. Applying the 2009 formula to the 2010 net asset amount of \$131.2 million would have resulted in a planning materiality level of \$420,000 and a tolerable misstatement of \$315,000.

Ultimately, the materiality level for the 2010 Yuhe Audit was set at the higher level calculated by Tom Cheng, and not that by Mr. Bryant or the measurement contemplated by the 2009 methodology. The higher level of planning materiality, as determined by Tom Cheng, resulted in a lessened scope of auditing procedures without reconciliation to the materiality levels calculated by Mr. Bryant or by the 2009 methodology.

¹⁴⁵ CVB043744.

CVB and Mr. Anderson Failed to Obtain Appropriate Evidential Matter

For the 2010 Yuhe Audit, Tom Cheng and RSM-China performed a large portion of the audit field work, and like they did in the 2009 Yuhe Audit, CVB and Mr. Anderson incorporated the workpapers into their own without an indication of substantial review. It is not clear how Mr. Bryant or Mr. Anderson, who both testified that they do not speak or read Chinese, could do a complete and sufficient review of the workpapers given the amount of Chinese writing that is in the files. There is no documentation in the workpapers of the role of Ms. Chen, who did speak Chinese, to indicate whether it was her role to translate workpapers or not. Lacking any substantive review, inclusion of workpapers prepared by Tom Cheng or RSM-China, particularly those not translated from Chinese to English, does not satisfy any requirement of CVB or Mr. Anderson to obtain sufficient and appropriate audit evidence.

In an email to the foreign staff, Ms. Chen identified how the workpapers of Tom Cheng were generally lacking in providing appropriate audit evidence. Her email, dated February 10, 2011, informed the staff the tickmarks were too simple. (Her example is a tickmark that read, "vouched to investment contract" but should have indicated that the auditor reviewed the contract and traced relevant information and payments to supporting documentation and provided details of the contract for the reviewer). The four Excel workpaper files provided by Tom Cheng each included a tickmark legend that was incorporated into CVB and Mr. Anderson's workpapers without any additional information requested.¹⁴⁶ Despite Ms. Chen's recognition that tickmarks such as those on the legend did not describe sufficient auditing procedures, there was no change in the documentation of auditing procedures included in CVB's workpapers for the 2010 Yuhe Audit that would permit the determination of the sufficiency of the auditing procedures performed by Tom Cheng.

¹⁴⁶ CVB043713, CVB043774, CVB044220 and CVB044621.

The workpapers also do not provide sufficient audit evidence that other issues identified in the 2010 Yuhe Audit were resolved to such a degree that CVB and Mr. Anderson could have appropriately issued an opinion:

- The delay in the finalization of the Dajiang Acquisition

The delay in the final payment by Yuhe for the Dajiang Acquisition, as noted in the section regarding risk, should have increased CVB and Mr. Anderson's level of professional skepticism with respect to this transaction. Emails sent by Ms. Chen regarding the allocation between deposits and fixed assets as of the end of 2010 confirm that the 2009 transaction remained un-finalized a year later, with no firm commitment by Yuhe as to a completion date.

- The past instances of prohibited related party transactions entered into by Yuhe (see separate section of this report regarding related parties for additional information)
- Yuhe's lack of the ability to prepare its own financial statements in accordance with US GAAP

Despite the message from Mr. Todd to Mr. Anderson regarding the poor state of the draft of Yuhe's Form 10-K only days before the filing deadline, the Audit Completion Document, prepared by Mr. Bryant and signed off by Mr. Anderson and Mr. Van Wagoner, stated that the issue was resolved by the hiring of Kingery & Crouse. Mr. Todd's e-mail provided no such resolution of Yuhe's inability to prepare the financial statements, and the workpapers provide no audit evidence that CVB and Mr. Anderson obtained reasonable assurance of the resolution of the issue.

- The high number of audit adjustments, or "AJEs," identified as a result of audit procedures in prior year audits

The Audit Completion Document provides only a reference to a workpaper that lists all adjustments, and the Summary Review Memo is no more indicative of a resolution, but it does more clearly state the problem, as shown in the excerpt below (highlighted).¹⁴⁷

¹⁴⁷ CVB043739.

Significant Audit Issues:

- Controls are still not effective. The Company has taken measures to improve, however, the auditor still begs the questions; do they really understand what controls are?
- There is a significant amount of AJEs that lead the auditor to believe that the company still does not have a firm grasp of US GAAP.

- The noted lack of internal controls at Yuhe

The excerpt of the Summary Review Memo above again states clearly the problem, but provides no audit evidence that CVB or Mr. Anderson resolved this issue.

CVB and Mr. Anderson Failed to Provide Appropriate Audit Documentation

The workpapers as produced certainly have not been “assembled for retention” nor in a manner that would facilitate one without previous connection to the 2010 Yuhe Audit to easily determine proper compliance with AS 3. Any work paper that does not provide the information necessary to determine 1) the nature, timing, extent and results of procedures performed, evidence obtained and conclusions reached and 2) who prepared and reviewed the work paper and when, represents a failure on the part of CVB and Mr. Anderson to properly document the 2010 Yuhe Audit. Most of the workpapers included in the Excel files sent by Tom Cheng include an auto-date feature that is updated when the Excel files are opened. A reviewer is unable to determine when the workpapers were created.

Mr. Van Wagoner Performed an Insufficient Engagement Quality Review

PCAOB Accounting Standard No. 7 (“AS 7”) *Engagement Quality Review and Conforming Amendment to the Board's Interim Quality Control Standards*, explicitly states the requirement of an Engagement Quality Review and concurring approval for an audit engagement and sets for the objective of the review:

The objective of the engagement quality reviewer is to perform an evaluation of the significant judgments made by the engagement team and

the related conclusions reached in forming the overall conclusion on the engagement and in preparing the engagement report, if a report is to be issued, in order to determine whether to provide concurring approval of issuance.

AS 7 calls for competence, independence, integrity, and objectivity by the engagement quality reviewer as he performs his review of the workpapers, audit report and other relevant documentation for the purpose of evaluating the audit team's judgment and assessments made during the audit. AS 7 requires documentation of his review and his approval of issuing the audit report.

Mr. Van Wagoner testified to his role in establishing CVB's practice of providing audit services to China based SEC registrants,¹⁴⁸ as well as his own perception of the role of engagement quality reviewer,

The role of an engagement quality reviewer, which was formerly called concurring review partner, is really -- I would say there were two aspects that define the role.

The first is to get comfortable that the audit team has properly identified and addressed the audit risks in the audit.

The second is to make sure that documents, which include the financial statements, that the information in those documents, 10-Qs, 10-Ks, et cetera, is consistent with the financial statements upon which we've rendered an opinion.¹⁴⁹

On March 30, 2011, Mr. Van Wagoner provided his approval for issuance of the CVB audit report, as indicated by his initials on the Supervision, Review and Approval form.¹⁵⁰ As noted herein, CVB and Mr. Anderson failed to comply with multiple PCAOB auditing standards during the 2010 Yuhe Audit, including but not limited to issuing an opinion without an appropriate basis gained from the auditing procedures performed by them. There is nothing that indicates Mr. Van Wagoner performed the appropriate level of review required to fulfill the requirements of AS 7, which review should have identified

¹⁴⁸ Sworn investigative testimony of Marty Van Wagoner, taken June 27, 2013, pp. 27-30.

¹⁴⁹ Sworn investigative testimony of Marty Van Wagoner, taken June 27, 2013, pp. 63:18-64:5.

¹⁵⁰ CVB044591 – CVB044597.

the failure of CVB and Mr. Anderson to comply with PCAOB auditing standards, as identified herein. Mr. Van Wagoner failed to discharge his responsibilities as the engagement quality reviewer by allowing the issuance of the CVB audit report despite those audit failures.

CVB, Mr. Anderson and Mr. Van Wagoner Failed to Exercise Due Professional Care

In their performance of the 2010 Yuhe Audit, CVB, Mr. Anderson and Mr. Van Wagoner also failed to exercise the appropriate level of professional skepticism required by AU 230, given the circumstances surrounding the audit. CVB, Mr. Anderson and Mr. Van Wagoner were aware, or should have been aware, of the following issues affecting the 2010 Yuhe Audit, many of them the same as in prior years. As indicated in the separate sections below, there is no indication that CVB, Mr. Anderson or Mr. Van Wagoner considered these issues with a “questioning mind,” nor is there indication that they performed a “critical assessment,” as such considerations and assessments should have been documented in the audit workpapers:

- Yuhe’s inability to prepare its own financial statements in accordance with US GAAP¹⁵¹ and the high number of audit adjustments identified as a result of audit procedures in prior year audits
- The past instances of prohibited related party transactions entered into by Yuhe (see separate section of this report regarding related parties for additional information)
- Yuhe’s business practices, particularly those related to cash, which was used for the majority of its transactions (According to a workpaper prepared by BT-Shanghai, “There is no account receivable account. The company receives sale payment by cash on the date of delivery.”¹⁵²)
- Allowing a large part of the audit work performed by CVB to be performed by a non-CPA senior staff accountant, while acting in a manager capacity¹⁵³

¹⁵¹ CVB002108-CVB002117.

¹⁵² CVB001532.

¹⁵³ Sworn investigative testimony of Russell Anderson, taken June 26, 2013, pp. 185:14 – 186:11.

- The geographical separation between CVB in the United States and all of the operations of Yuhe in China
- Recent attention by the PCAOB on appropriate auditing when using assistants from outside the firm, as well as the audits of companies involved in reverse mergers
- The delayed finalization of the Dajiang Acquisition that allegedly occurred in 2009
- 2010 was the first year for Tom Cheng to be involved in the audit of Yuhe.

CVB, Mr. Anderson and Mr. Van Wagoner failed to exercise due professional care in performing the 2010 Yuhe Audit. In each instance of CVB and Mr. Anderson failing to act in accordance with the PCAOB auditing standards identified herein CVB and Mr. Anderson failed to exercise due professional care in performing the 2010 Yuhe Audit. These failures are discussed in separate sections in this report but given the extent of these failures and the comparatively minor participation of CVB in the audit, the issuance of an audit opinion by CVB and Mr. Anderson, in my opinion, is a violation of the due professional care standard, in and of itself. In failing to perform a proper engagement quality review as required by AS 7, Mr. Van Wagoner also failed to exercise due professional care.

EXHIBIT A – Documents Considered

Public Filings

- Yuhe International, Inc., Form 10-K for the year ended December 31, 2008
- Yuhe International, Inc., Form 10-K/A for the year ended December 31, 2008, filed May 13, 2009
- Yuhe International, Inc., Form 10-K for the year ended December 31, 2009
- Yuhe International, Inc., Form 10-K for the year ended December 31, 2010
- Yuhe International, Inc., Form 8-K, filed March 17, 2008
- Yuhe International, Inc., Form 8-K, filed April 10, 2008
- Yuhe International, Inc., Form 8-K, filed December 9, 2009
- Yuhe International, Inc., Form 8-K, filed March 11, 2010
- Yuhe International, Inc., Form 8-K, filed June 23, 2011
- Yuhe International, Inc., Form S-1 for the period ended May 12, 2008
- First Growth Investors, Inc., Form 10-KSB for the year ended December 31, 2007

Accounting and Auditing Guidance

- FASB Accounting Standards Codification Notice to Constituents (v 4.1) About the Codification (Apr. 10, 2010)
- PCAOB Release No. 104-2010-089A
- PCAOB Research Note # 2011-P1, *Activity Summary and Audit Implications for Reverse Mergers Involving Companies from the China Region: January 1, 2007 through March 31, 2010*, dated March 14, 2011.
- PCAOB Alert 6, *Auditor Considerations Regarding Using the Work of Other Auditors and Engaging Assistants From Outside the Firm*
- PCAOB Auditing Standard No. 1, *References in Auditors' Reports to the Standards of the Public Company Accounting Oversight Board*
- PCAOB Auditing Standard No. 3, *Audit Documentation*
- PCAOB Auditing Standard No. 6, *Consistency and the Auditor's Report on Financial Statements*
- PCAOB Auditing Standard No. 7, *Engagement Quality Review and Conforming Amendment to the Board's Interim Quality Control Standards*

- AU Section 110, *Responsibilities and Functions of the Independent Auditor*
- AU Section 150, *Generally Accepted Auditing Standards*
- AU Section 210, *Training and Proficiency of the Independent Auditor*
- AU Section 220, *Independence*
- AU Section 230, *Due Professional Care in the Performance of Work*
- AU Section 310, *Appointment of the Independent Auditor*
- AU Section 311, *Planning and Supervision*
- AU Section 312, *Audit Risk and Materiality in Conducting an Audit*
- AU Section 315, *Communications between Predecessor and Successor Auditors*
- AU Section 316, *Consideration of Fraud in a Financial Statement Audit*
- AU Section 317, *Illegal Acts by Clients*
- AU Section 319, *Consideration of Internal Control in a Financial Statement Audit*
- AU Section 322, *The Auditor's Consideration of the Internal Audit Function in an Audit of Financial Statements*
- AU Section 326, *Evidential Matter*
- AU Section 331, *Inventories*
- AU Section 333, *Management Representations*
- AU Section 334, *Related Parties*
- AU Section 410, *Adherence to Generally Accepted Accounting Principles*
- AU Section 431, *Adequacy of Disclosure in Financial Statements*
- AU Section 504, *Association With Financial Statements*
- AU Section 508, *Reports on Audited Financial Statements*
- AU Section 532, *Restricting the Use of an Auditor's Report*
- AU Section 543, *Part of Audit Performed by Other independent Auditors*
- SEC Item 9(e) of Schedule 14A

Sworn Investigative Testimony Transcripts and Related Exhibits

- Sworn Testimony of Russell Anderson, taken June 26, 2013
- Sworn Testimony of Sean Bryant, taken June 25, 2013

- Sworn Testimony of Marty Van Wagoner, taken June 27, 2013

Produced Documents

- CVB000005-CVB000009
- CVB000532
- CVB000067-CVB000068
- CVB000750-CVB000753
- CVB001532
- CVB001588-CVB001590
- CVB001781-CVB001787
- CVB001901-CVB001907
- CVB002108-CVB002117
- CVB002359-CVB002363
- CVB015393-CVB015394
- CVB029575
- CVB031087
- CVB040055
- CVB040199
- CVB043713
- CVB043739
- CVB043744
- CVB043774
- CVB044112
- CVB044136
- CVB044140-CVB044143
- CVB044208-CVB044219
- CVB044220
- CVB044591 – CVB044597
- CVB044621
- CVB044967-CVB044970

- CVB044972
- CVB050985-CVB050986
- CVB051204
- CVB051472-CVB051473
- CVB051494-CVB051496
- CVB051581-CVB051582
- CVB052832
- CVB052947
- CVB053122
- CVB056826
- CVB056836
- CVB063701
- CVB066163-CVB066166
- CVB066244

Other:

- Child, Van Wagoner and Associates website. <http://cpaelite.net/about-us>
- Letter from U.S. Securities and Exchange Commission to Mr. Gao Zhentao, dated December 14, 2010
- Sarbanes-Oxley Act of 2002
- *Order Instituting Public Administrative and Cease-And-Desist Proceedings Pursuant to Sections 4C and 21C of the Securities and Exchange Act of 1934 and Rule 102(e) of the Commission's Rules of Practice, In the Matter of Child Van Wagoner & Bradshaw, PLLC, Russell E. Anderson, CPA and Marty Van Wagoner, CPA, dated July 2, 2014*
- Wells Submission of Child, Van Wagoner & Bradshaw, Russell Anderson, and Marty Van Wagoner, dated October 25, 2013 and Supplemental Wells Submission, dated May 29, 2014.
- Letter from Mr. Anthony J. Costantini to U.S. Securities and Exchange Commission, dated September 20, 2011

EXHIBIT B – Curriculum Vitae of R. Larry Johnson

R. LARRY JOHNSON, CPA



EXPERIENCE

VERIS CONSULTING, INC. 2000 - Present
CHAIRMAN/CEO

JOHNSON LAMBERT & CO. 1986 - 2005
MANAGING PARTNER

ERNST & WHINNEY 1968 - 1986
PARTNER

Direct client responsibility for all litigation consulting services. Experience includes forensic analysis; liability, causation and damages consultation; discovery assistance; preparation of damages analysis and expert testimony. Engagements have included many which required several thousands of hours of assistance and involved damages in the hundreds of millions of dollars.

Specialized industries involved in litigation assignments have included insurance, nuclear power, finance, software development, telecommunications, real estate, government contractors, professional service firms and hotels.

As managing partner of Johnson Lambert & Co., oversaw the accounting and auditing practice of that firm; as CEO of Veris Consulting, Inc., oversees all consulting services that firm provides, including survey research and technology consulting.

For 18 years through 1986 associated with Ernst & Whinney. Admitted to partnership in 1978, named partner in charge of accounting and auditing for its Washington, D.C. practice in 1980 and served as Mid-Atlantic Regional Director of insurance services.

AICPA FINANCIAL SERVICES EXPERTS PANEL 2000 - 2001
MEMBER

One of 15 original members of panel designed to monitor developments affecting the delivery and reporting of financial services in the U.S.

AICPA INSURANCE COMPANIES COMMITTEE 1997 - 1999
MEMBER 1989 - 1993

One of 15 members responsible for development of accounting and financial reporting for U.S. insurance enterprises.

ACCOUNTING STANDARDS EXECUTIVE COMMITTEE
(Now FINANCIAL REPORTING EXECUTIVE COMMITTEE) 1994 - 1997
MEMBER

One of 15 members of the Accounting Standards Executive Committee of the American Institute of Certified Public Accountants, which was the highest authority in the U.S. Accounting Profession with responsibility for industry-specific accounting and reporting matters.

OTHER AICPA COMMITTEES

Served as a member of the AICPA Committee on Relations with Actuaries and on task forces including the following:

- Auditing Loss Reserves
- Mutual Life Insurance Companies
- Deposit Accounting (Chair)
- Mass Tort Liabilities

EDUCATION

BS – University of Maryland, *magna cum laude*
Completed MBA course work, George Washington University

TRIAL AND ARBITRATION TESTIMONY

- *In the Matter of the Arbitration between National Union Fire Insurance Company of Pittsburgh, PA, et al. v. Transatlantic Insurance Company; In the Matter of the Arbitration between American Home and National Union Insurance Company of Pittsburgh, PA v. Transatlantic; In the Matter of the Arbitration between The Insurance Company of PA v. Transatlantic* (October 2014)
- *Alabama Power Company, Georgia Power Company, and Southern Nuclear Operating Co., Inc. v. United States* (Fed. Cl. No. 08-237C) (November 2013)
- *Carolina Power & Light Company, Florida Power Corporation v. United States of America* (Fed. Cl., No. No. 11-869C) (September 2013)
- *Connecticut Yankee Atomic Power Company, Yankee Atomic Electric Company, Maine Yankee Atomic Power Company v. United States of America*, (Fed Cl., Nos. 07-875C, 07-876C, 07) (October 2011)
- *Monsanto Co. and Monsanto Technology LLC v. E.I. DuPont de Nemours and Company and Pioneer Hi-Bred Int'l. Inc.*, (AAA No. 13-122-0126-09) (July 2011)
- *Fuller-Austin Asbestos Settlement Trust, et al. v. Zurich-American Insurance Company, et al and related cases*, Superior Court of the State of California, County of San Francisco, Nos. CGC 04-431719, CGC 04-436181, CGC 05-442140, CGC-442745) (June 2011)
- *Ferguson, et al. v. Hannover Rückversicherungs-Aktiengesellschaft* (N.Y. Sup. Ct., No. 500106/2008) (March 2011)
- *In the Matter of Joseph P. Welter, CPA and Keith D. Majors, CPA*, (PCAOB No: 105-2010-001) (December 2010)

DEPOSITION TESTIMONY

- *In the Matter of the Arbitration between National Union Fire Insurance Company of Pittsburgh, PA, et al. v. Transatlantic Insurance Company; In the Matter of the Arbitration between American Home and National Union Insurance Company of Pittsburgh, PA v. Transatlantic; In the Matter of the Arbitration between The Insurance Company of PA v. Transatlantic* (September 2014)
- *N-Tron Corporation v. Nicholson, et al.* (S.D.N.Y., No. 12 Civ. 03568) (August 2014)
- *Dairyland Power Cooperative v. United States* (Fed. Cl., No. 12-902C) (July 2014)
- *In Re Lehman Brothers Securities and ERISA Litigation* (S.D.N.Y., No. 09-MD- 2017) (May 2014)
- *Scienton Technologies, Inc. ,et al. v. Computer Associates International, Inc.* (E.D.N.Y., No. 2: 04 CV 2652) (October 2013)
- *Securities and Exchange Commission v. Joseph F. Apuzzo* (D. Conn., No. 3: 07 CV 01910) (October 2013)
- *Carolina Power & Light Company, Florida Power Corporation v. United States of America* (Fed. Cl., No. No. 11-869C) (June 2013)
- *Retirement Program for Employees of the Town of Fairfield, et al. v. MAXAM Capital Management LLC, et al., No. X05 CV 09-5011561 S* (Super. Ct. Conn.) (November 2012)
- *The Rector and Visitors of the University of Virginia v. IDX Systems Corporation, et al.* In the Circuit Court for the City of Charlottesville. Civil Case No.: CL09-58- and *IDX Systems Corporation, et al. v. Marshall Ruffin*, (Circuit Court for the City of Charlottesville, Civil case No.: CL10-398) (March 2012)
- *Alabama Power Company, Georgia Power Company and Southern Nuclear Operating Company, Inc. v. United States* (Fed. Cl. No. 08-237C) (January 2012)
- *Pacific Gas & Electric Company v. United States* (Fed. Cl. No. 10-507C, into which has been consolidated No. 10-508C) (November 2011)
- *Miguel V. Pro and Davis Landscape, Ltd. v. Hertz Equipment Rental Corporation* (D.N.J., No. 2:06-CV-03830) (October 2011)
- *Jean Smith and Loria Ivie, Individually and on behalf of All Others Similarly Situated v. Barry Collinsworth, Thomas Pugh, United American Insurance Company, Heartland Alliance of America Association, Farm & Ranch Healthcare, Inc.; and John Does 1020* (Circuit Court of Saline County, Arkansas, No CV 2004-742-2) (July 2011)
- *Connecticut Yankee Atomic Power Company, Yankee Atomic Electric Company, Maine Yankee Atomic Power Company v. United States* (Fed. Cl., Nos. 07-875C, 07-876C, 07-877C) (July 2011)
- *Fairfax Financial Holdings, Ltd., et ano. v. S.A.C. Capital Management, LLC, et al.* (Superior Court of the State of New Jersey, Docket No. MRS-L-2032-06) (July 2011)
- *Monsanto Co. and Monsanto Technology LLC v. E.I. DuPont de Nemours and Company and Pioneer Hi-Bred Int'l. Inc.* (AAA No. 13-122-0126-09) (June 2011)
- *A.P.I., Inc. Asbestos Settlement Trust and A.P.I., Inc. v. Home Insurance Company et al.,* (D. Minn., No. 09-CV-00975) (April 2011)

- *The Rector and Visitors of the University of Virginia v. IDX Systems Corporation, et al.* (In the Circuit Court for the City of Charlottesville, Civil Case No.: CL09-58) (February 2011)
- *United States Securities and Exchange Commission v. Escala Group, Inc. Gregory Manning, Larry Lee Crawford, CPA, et al.* (D.D.C., No. 09 civ. 2646) (January 2011)
- *Northern States Power Company v. The United States* (Fed. Cl., No. 07-608C) (October 2010)

SPEECHES

- Now What? Targeting Culpable Parties and Hot Topics
International Association of Insurance Receivers Technical Development Series IV (June 2013)
- Panel Discussion -Financial Professionals' Perspectives on Emerging Global Trends in Financial Reporting
Third Norfolk Southern Excellence in Financial Reporting Conference, Hosted by the Mason School of Business at The College of William and Mary (April 2013)
- The Effective Use of Financial Experts in Business Litigation
DRI Commercial and Intellectual Property Litigation Symposium – Litigating the Financial Meltdown and Protecting Your Intellectual Property (April 2009)
- The Death of Deepening Insolvency?
International Association of Insurance Receivers 2009 Post Inaugural Insolvency Conference (January 2009)
- Subprime Lending Issues of Valuation
Law Seminars International Subprime Lending Crisis Conference (March 2008)
- Evolving Theories of Liabilities and Damages Against Third Parties –
International Association of Insurance Receivers 2005 Insolvency Workshop (February 2005)

EXHIBIT C – Basic Auditing Standards

The ten basic auditing standards are as follows:

General Standards

1. *The audit is to be performed by a person or persons having adequate technical training and proficiency as an auditor.*¹⁵⁴

*This standard recognizes that however capable a person may be in other fields, including business and finance, he cannot meet the requirements of the auditing standards without proper education and experience in the field of auditing...In the performance of the audit which leads to an opinion, the independent auditor holds himself out as one who is proficient in accounting and auditing.*¹⁵⁵

2. *In all matters relating to the assignment, an independence in mental attitude is to be maintained by the auditor or auditors.*¹⁵⁶

*To be independent, the auditor must be intellectually honest; to be recognized as independent, he must be free from any obligation to or interest in the client, its management, or its owners.*¹⁵⁷

3. *Due professional care is to be exercised in the planning and performance of the audit and the preparation of the report.*¹⁵⁸

*Due professional care requires the auditor to exercise professional skepticism. Professional skepticism is an attitude that includes a questioning mind and a critical assessment of audit evidence. The auditor uses the knowledge, skill and ability called for by the profession of public accounting to diligently perform, in good faith and with integrity, the gathering and objective evaluation of evidence.*¹⁵⁹

Standards of Field Work

¹⁵⁴ AU §150.02.

¹⁵⁵ AU §210.02-.03.

¹⁵⁶ AU §150.02.

¹⁵⁷ AU §220.03.

¹⁵⁸ AU §230.01.

¹⁵⁹ AU §230.07.

1. *The work is to be adequately planned and assistants, if any, are to be properly supervised.*¹⁶⁰

Audit planning involves developing an overall strategy for the expected conduct and scope of the audit...In planning the audit, the auditor should consider, among other matters:

- a. *Matters relating to the entity's business and the industry in which it operates.*
- b. *The entity's accounting policies and procedures.*
- c. *The methods used by the entity to process significant accounting information...including the use of service organizations, such as outside service centers.*
- d. *Planned assessed level of control risk.*
- e. *Preliminary judgment about materiality levels for audit purposes.*
- f. *Financial statement items likely to require adjustment.*
- g. *Conditions that may require extension or modification of audit tests, such as the risk of material error or fraud or the existence of related party transactions.*
- h. *The nature of reports expected to be rendered...*

*Supervision involves directing the efforts of assistants who are involved in accomplishing the objectives of the audit and determining whether those objectives were accomplished...The work performed by each assistant should be reviewed to determine whether it was adequately performed and to evaluate whether the results are consistent with the conclusions to be presented in the auditor's report.*¹⁶¹

2. *A sufficient understanding of internal control¹⁶² is to be obtained to plan the audit and to determine the nature, timing, and extent of tests to be performed.*¹⁶³

In all audits, the auditor should obtain an understanding of internal control sufficient to plan the audit by performing procedures to understand the design of controls relevant to an audit of financial

¹⁶⁰ AU §150.02.

¹⁶¹ AU §311.03-13.

¹⁶² "The standards define control as a process – effected by an entity's board of directors, management, and other personnel – designed to provide reasonable assurance regarding the achievement of objectives in the following categories: (a) reliability of financial reporting, (b) effectiveness and efficiency of operations, and (c) compliance with applicable laws and regulations." (AU §319.06).

¹⁶³ AU §150.02.

*statements and determining whether they have been placed in operation...The auditor uses the understanding of internal control and the assessed level of control risk in determining the nature, timing, and extent of substantive tests for financial statement assertions.*¹⁶⁴

3. *Sufficient competent evidential matter is to be obtained through inspection, observation, inquiries, and confirmations to afford a reasonable basis for an opinion regarding the financial statements under audit.*¹⁶⁵

*Most of the independent auditor's work in forming his or her opinion on financial statements consists of obtaining and evaluating evidential matter concerning the assertions in such financial statements...Evidential matter varies substantially in its influence on the auditor as he or she develops an opinion with respect to financial statements under audit. The pertinence of the evidence, its objectivity, its timeliness, and the existence of other evidential matter corroborating the conclusions to which it leads all bear on its competence.*¹⁶⁶

Standards of Reporting

1. *The report shall state whether the financial statements are presented in accordance with generally accepted accounting principles (GAAP).*¹⁶⁷
2. *The report shall identify those circumstances in which such principles have not been consistently observed in the current period in relation to the preceding period.*¹⁶⁸

*[T]he auditor should evaluate whether the comparability of the financial statements between periods has been materially affected by changes in accounting principles or by material adjustments to previously issued financial statements for the relevant periods.*¹⁶⁹

3. *Informative disclosures in the financial statements are to be regarded as reasonably adequate unless otherwise stated in the report.*¹⁷⁰

¹⁶⁴ AU §319.02-.05.

¹⁶⁵ AU §150.02.

¹⁶⁶ AU §326.02.

¹⁶⁷ AU §150.02.

¹⁶⁸ AU §150.02.

¹⁶⁹ PCAOB Auditing Standard No. 6, paragraph 2.

¹⁷⁰ AU §150.02.

*The presentation of financial statements in conformity with generally accepted accounting principles includes adequate disclosure of material matters. These matters relate to the form, arrangement, and content of the financial statements and their appended notes, including, for example, the terminology used, the amount of detail given, the classification of items in the statements, and the bases of amounts set forth.*¹⁷¹

4. *The report shall contain either an expression of opinion regarding the financial statements, taken as a whole, or an assertion to the effect that an opinion cannot be expressed. When an overall opinion cannot be expressed, the reasons therefore should be stated. In all cases where an auditor's name is associated with financial statements, the report should contain a clear-cut indication of the character of the auditor's work, if any, and the degree of responsibility the auditor is taking.*¹⁷²

*The objective of the fourth reporting standard is to prevent misinterpretation of the degree of responsibility the accountant assumes when his name is associated with financial statements...An accountant is associated with financial statements when he has consented to the use of his name in a report, document, or written communication containing the statements. Also, when an accountant submits to his client or others financial statements that he has prepared or assisted in preparing, he is deemed to be associated even though the accountant does not append his name to the statements.*¹⁷³

¹⁷¹ AU §431.02.

¹⁷² AU §150.02.

¹⁷³ AU §504.01-.03.